CLSA
EMERGING MARKETS

CG Watch

Corporate governance in emerging markets

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The CG payoff
Financial ratios
Valuations
Share-price performance

CG rankings
495 companies
25 emerging markets
18 sectors

CG stars
HSBC
Infosys
SIA
HDFC Bank
Li & Fung

CG laggards
Indocement
Lukoil
Indah Kiat
Pakistan Telecom
Fauji Fertilizer

Saints & sinners

Who's got religion?

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Large-cap; high-CG BUYs

	Country	CLSA CG score (%)	Rec
Infosys	India	93.3	BUY
Singapore Airlines	Singapore	85.7	BUY
Li & Fung	Hong Kong	84.1	LT BUY
Richemont	South Africa	82.6	LT BUY
CLP	Hong Kong	82.0	BUY
South African Breweries plc	South Africa	81.7	LT BUY
Singapore Press Holdings	Singapore	80.5	BUY
Stanbic	South Africa	79.2	BUY
FirstRand	South Africa	77.7	LT BUY
TSMC	Taiwan	77.1	BUY
Cathay Pacific	Hong Kong	76.0	LT BUY
Nedcor	South Africa	75.9	BUY
Ambev	Brazil	74.6	BUY
Cemex	Mexico	74.0	BUY
Hong Kong Gas	Hong Kong	73.0	LT BUY
ST Engineering	Singapore	72.7	BUY
Hang Seng Bank	Hong Kong	71.9	OUTPERFORM
Modelo	Mexico	71.8	BUY
Legend	China	71.1	BUY
Embraer	Brazil	71.0	BUY

Source: CLSA Emerging Markets

Large-cap; low-CG SELLs

	Country	CLSA CG score (%)	Rec
Isbank	Turkey	37.8	SELL
Tenaga	Malaysia	39.9	UNDERPERFORM
PCCW	Hong Kong	40.6	SELL
Hutchison	Hong Kong	42.7	UNDERPERFORM
Shinhan Bank	Korea	44.1	SELL
China Unicom	China	44.7	SWITCH
PetroChina	China	45.0	SWITCH
Turkcell	Turkey	46.9	SELL
Telekom Malaysia	Malaysia	48.4	SELL
Cathay Life	Taiwan	48.8	SELL
Kookmin Bank	Korea	49.4	SELL
Formosa Plastics	Taiwan	50.2	UNDERPERFORM
IOC	India	51.0	SELL
UWCCB	Taiwan	51.1	UNDERPERFORM
Czech Telecom	Czech Republic	51.4	SELL
Wharf	Hong Kong	54.8	SELL
Asustek	Taiwan	56.9	SELL
Housing & Comm Bank	Korea	57.9	UNDERPERFORM
Alpha Credit Bank	Greece	60.8	SELL

Source: CLSA Emerging Markets

Saints and sinners: Who's got religion?

Strong outperformance for stocks with high CG

Corporate governance (CG) pays. Of the 100 largest companies across emerging markets, the total average US$ return over the past three years has been 127%, while the average return of the top CG quartile of these was more than double that at 267%. Over the past five years, the total average return for large caps was 388% with the top CG quartile providing an average return of 930%.

These companies are value creators with superior financial ratios

It follows that stocks with good CG are strong performers, as these companies are value creators. Well-run companies have high CG scores and also almost invariably superior financial ratios. In ten of the 11 Asian markets and in Eastern Europe (EE), South Africa and Latin America (LatAm), companies in the top quartile for CG had substantially higher EVA™/invested capital (IC), averaging 8ppts above their respective country averages. In most markets, companies with low CG scores had poor financial ratios.

Value creation and investors' CG focus means sustained share-price outperformance

Superior financials of high CG companies support premium valuations. Sustained value creation of these companies as well as greater focus of investors on CG as an investment criterion in itself will result in continued share-price outperformance over the medium term.

"Saints" and "sinners" are named

Of the largest cap stocks in global emerging markets (GEM), our highest CG scores go to **HSBC**, **Infosys**, **SIA**, **Li & Fung**, **Richemont**, **CLP**, **South Africa Breweries**, **Singapore Press Holdings**, **Wipro** and **Stanbric** (see pg 16 for full list). Of the big caps, the lowest on our CG scores are **Lukoil**, **TPSA**, **Isbank**, **Tenaga**, **PCCW**, **Hutchison**, **Shinhan Bank**, **Citic Pacific**, **KT Freetel** and **China Unicom**. (Of these, our BUYs and SELLs are shown on Page 2.)

495 companies and 25 markets were ranked

The CLSA CG ratings were assigned to 495 companies representing our core coverage in 25 markets. We also ranked markets for their macro determinants. Markets with low macro CG scores have seen substantial de-ratings and risk being marginalised by investors. In the lower half of our macro CG ranking, Korea, Thailand, Malaysia, China, Philippines, Indonesia, Pakistan and Russia have seen greater-than-50% declines (US$ terms) in their market indices over the past three and five years.

South Africa, Hong Kong and Singapore score well; EE, Pakistan, Indonesia and Korea score poorly

In the top 100 of our universe for CG, companies from South Africa, Hong Kong, Singapore, Mexico and Brazil are well-represented – none came from Eastern Europe, Pakistan, Indonesia and Korea. Half the companies sampled from Poland, Russia, Pakistan, Indonesia, Turkey, the Philippines and Korea fell into the bottom 100. The correlation between CG and financials was strong for most Asian markets and LatAm, but not significant for EEMEA (inflation accounting in Turkey and the size factor in South Africa distorted the results).

Transport, manufacturing, metals/ mining and consumer are high CG sectors

Across GEM sectors, transport, manufacturing, metals/mining and consumer had the highest average CG scores; petrochemicals, pharmaceuticals and infrastructure scored the lowest. Correlation to financials were stronger for sectors that were less strong on CG, eg infrastructure, property and conglomerates.

Moves to improve CG seen across Asia, but with uneven progress

Encouragingly, in most markets, particularly in Asia, regulators and/or pressure groups are working to improve CG. Singapore and India are making the most impressive strides. Brazil has tightened regulations to protect investors, but in much of EEMEA and LatAm, the urgency to improve CG was not felt as the crisis of recent years was not as severe, which exposed more of the bitter fruit of poor CG in Asia.

Much higher ROCE and ROE in high CG companies of the 100 largest stocks in GEMs

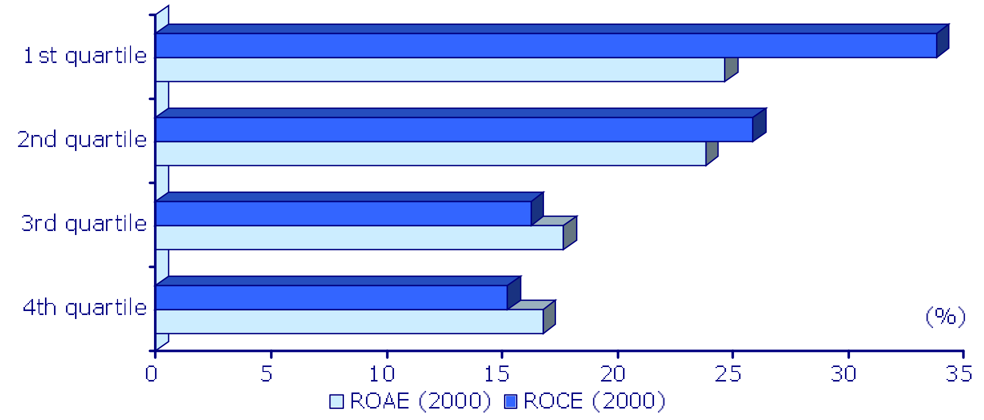
Also higher PB on average for companies with better CG

Stocks with high CG scores have been massive outperformers especially over three and five years

Returns to CG – GEM 100 largest stocks

Figure 1

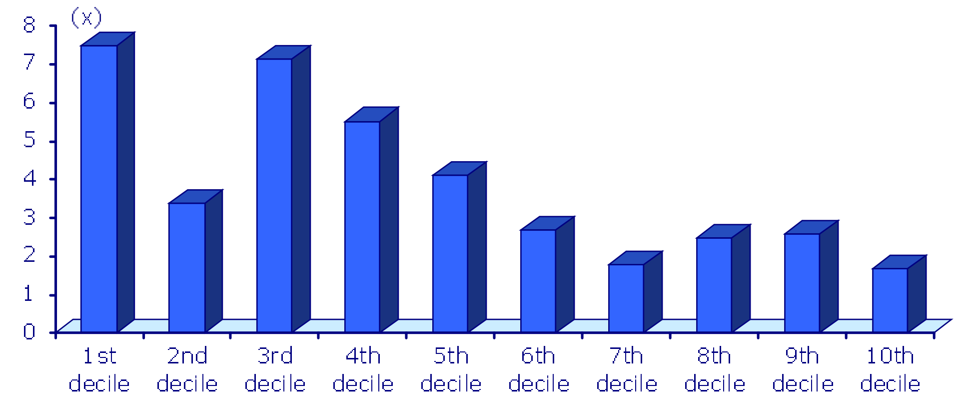
ROCE and ROAE of 100 largest GEM stocks by CG quartile



Source: CLSA Emerging Markets

Figure 2

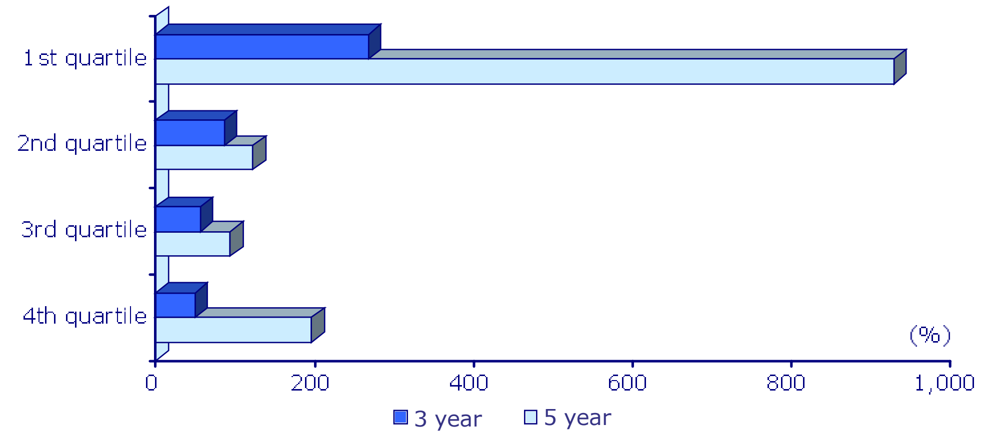
PB of 100 largest GEM stocks by CG decile (2000)



Source: CLSA Emerging Markets

Figure 3

Three- and five-year share-price performance of 100 largest GEM stocks by CG quartile



Source: CLSA Emerging Markets

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Key findings of CLSA study

A quite robust correlation between CG and financial ratios, valuations and share-price performance was found among the largest caps as well as within markets and GEM sectors. The relationship is derived through analysing groups of companies into quartiles of CG ranking for the various markets/sectors. Our key findings are summarised below.

Near-perfect fit between CGs and financial-performance ratios of largest 100 companies in GEM

Of the largest 100 companies in emerging markets, there was a near perfect fit of companies sorted by CG quartiles and financial performance ratios.

- The average ROCE for the largest 100 stocks is 23.5% for FY00, while the top quartile provided an average ROCE of 33.8%. This was significantly higher than the ROCE of the bottom two quartiles where the ROCE was just 16%.
- A similar correlation among the large caps was, not surprisingly, also found with ROE and EVA™/invested capital. The average large cap ROE was 21.2% while the top CG quartile companies generated a ROE of 25% and the bottom quartile's average ROE was 18%.
- The top quartile among big caps generated an average EVA™/IC of 11%, the second quartile's average EVA™/IC was 9.5%, while the bottom two quartiles average EVA™/IC averaged a bare 1.3%.

Strong correlation between CG and price performance of the largest stocks, and with PB valuations

Of the largest 100 companies, CG quartiles were strongly correlated with PB as well as one-, three- and five-year average share-price performance.

- The average big cap PB was 3.9x with the top quartile at 5.5x and the bottom two quartiles at 2.5x.
- Over 2000, the average US$ return of the big caps was -8.7%, but the top quartile CG companies provided a positive average return of 3.3%; the bottom CG quartile fell 23.4% on average.
- Over the past three years, the average total return of the large caps has been 127% with the top quartile providing an average total return more than double that at 267%. Stocks in the bottom CG quartile underperformed with an average return of 49%.
- Over the past five years, the average total return of the large caps has been 388% with the top quartile providing a return that was again more than double at 930%. Stocks in the bottom CG quartile underperformed with an average return of 196%.

Also strong correlation across emerging markets of CG and financial-performance ratios

Across emerging markets, a strong correlation is also found between CG and financial performance ratios.

- In ten of the 11 Asian markets and in LatAm, companies in the top CG quartile for their respective markets had significantly higher ROEs than their market sample, averaging 10ppts higher. In 12 of the 15 emerging markets analysed, companies in the lowest CG quartile had lower ROEs than the market average.
- A similar correlation was also found with ROCEs and CG.
- In 13 of the 15 emerging markets, companies in the top CG quartile generated a higher EVA™/IC, averaging 8ppts above the market average. In ten of the 15 emerging markets, companies with low CG scores had lower EVA™/IC.

Across emerging markets, near-perfect relationship between CG and share-price outperformance as well as PB valuations

Across emerging markets, nearly without exception stocks at the top end for CG have been strong outperformers over the past one to five years and have higher PB valuations. Companies with low CG are at PE discounts.

- In all the Asian markets, and in Eastern Europe and LatAm, companies in the top quartile for CG are at PB premiums, averaging 54% above their market average. In 14 of the 15 emerging markets, companies in the lowest CG quartile were at PB discounts averaging 43% below their market average.

Low CG stocks trade at PE discount averaging 31% against their market

- In eight of the 14 emerging markets covered (excluding Indonesia with negative average PE), shares of companies in the lowest CG quartile trade at PE discounts averaging 31% (and as high as 76%) against their market sample.
- In every Asian market under coverage, and in LatAm, companies in the top quartile for CG have outperformed, on average by 49ppts over the respective market averages for the past three years. In 11 of the 15 markets, companies with the lowest CG underperformed over the past three years.
- The share-price outperformance correlation with CG also holds for the past one and three years, but is slightly less strong.

Strong correlation also across GEM sectors

Across GEM sectors there is also a close correlation between CG and financial ratios, PB and share-price performance. Sectors with good business conditions are found to have higher average CG scores.

- In all but one of the eight main sectors, companies in the top CG quartile had ROEs higher than sector average and companies in the lowest CG quartile had lower ROEs.
- In six of the eight sectors, companies in the top CG quartile trade at a PB premium averaging 39% while in seven of the eight sectors companies in the lowest CG quartile trade at PB discounts.
- For all the eight main sectors, stocks in the top CG quartile have outperformed over the past three years; in six of the eight sectors, stocks of the lowest CG quartile companies have underperformed. A similar pattern also holds for the past one and three years.
- Sectors with higher ROEs and three-year share-price performances, reflecting better business conditions, tend to have higher average CG scores relative to other sectors. Conversely, sectors that have low ROEs and poor medium term, average stock performance had lower CG scores.

Markets with poor CG have fallen 50% or more

Of the emerging markets, many in the lower half of our CG rankings have seen their indices fall 50% or more over the past three or five years. Investors are moving away from markets that are poorly governed.

- Of the markets in the lower half of our CG rankings for macro determinants, scoring 4 or below against a maximum 10, the indices for Korea, Thailand, Malaysia, China, Philippines, Indonesia, Pakistan and Russia have fallen more than 50% over three and/or five years.
- Over the past three years, the markets with the highest CG rankings have been outperformers. Their reassuring CG rankings is likely to be one of the reasons in a flight to quality.

CLSA CG rankings: Method and purpose

Corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations and society.

Sir Adrian Cadbury

CG scoring of 495 companies across global emerging markets

In October 2000, CLSA produced its first GEM report on CG, *The Tide Is Out: Who's Swimming Naked?* This covered an initial sample of 115 of the largest companies in 25 emerging markets that we cover. CG scoring of the companies was through a questionnaire filled out by our analysts in each country for the companies that they cover. That questionnaire has since been made more rigorous – 15 qualitative/interpretative questions were replaced with questions that focused on hard data and numbers. The result is the revised questionnaire in Appendix 1, which has been used to rank 495 companies representing our core coverage across the emerging markets of Asia, EEMEA and Latin America for CG.

57 issues under seven key criteria of CG assessed

The questionnaire is designed such that all questions have strictly binary answers (yes/no) to reduce analyst's subjectivity. The questionnaire assessed the companies on 57 main issues divided into seven key criteria that we take to constitute the concept of good CG: management discipline, transparency, independence, accountability, responsibility, fairness and social responsibility. The first six criteria was given an equal weight of 15% and the last, social responsibility, was given a lower weight of 10%, owing to the split response from fund managers as feedback on our last report on whether they did or did not see this as part of CG.

Broad definition with no sharp distinction between good management and good governance

A broad definition of CG is backed by good authority (see quote from Adrian Cadbury above). Our definition encompasses not just the fair treatment of minority shareholders and other stakeholders, but also aspects like management discipline (including financial discipline) and social responsibility. We take all these as being aspects of how well a company is run, ie, that there is no sharp distinction between good management and good governance. If a company does not know its cost of capital, this is not just poor management but also an aspect of bad governance. It entails a higher risk that the company might embark on projects where returns are below cost of capital but which may nevertheless have some allure for management. This would certainly be an investor concern, and could well be to the detriment of shareholders, which we believe is appropriately placed under the concept of CG.

Social responsibility part of being a good corporate citizen

Similarly, if a company is investing in a country like Myanmar, it reflects management's willingness to engage in murky environments and to deal with groups that lack legitimacy. Not only would many retail investors and trustees object to this, but ignoring social responsibility would generally be seen as being a bad corporate citizen which is inconsistent with global best standards of good governance.

Breadth of definition depends on purpose

Whether one should focus on a broader or narrower concept of CG depends on one's purposes. Our purpose is to set a yardstick of best international standards. However, for those who seek to employ a narrower standard focusing on the protection of minority rights over the short- and medium-term, our questionnaire and scoring system has the flexibility to focus on particular categories of CG and to give different weights (even zero) to any of these seven aspects.

Questions have equal weight within each section, except first question of fairness and independence sections

Each question in each section has an equal weight, except for the first questions in the independence and fairness sections. These questions were: 1) whether there has been any controversy over whether the board or senior management have made decisions that favoured them over shareholders, and 2) whether any decisions by senior management have been perceived to favour majority shareholders over minorities. These questions each are given half the weight in their sections as we consider them to be the key issue under the respective categories.

CLSA's CG assessment summarised

The CLSA CG score is based on how we rate a company on 57 issues under seven main aspects of governance. The following is a summary of what we take to constitute good CG:

I. Discipline

- ❑ Explicit public statement placing priority on CG
- ❑ Management incentivised towards a higher share price
- ❑ Sticking to clearly defined core businesses
- ❑ Having an appropriate estimate of cost of equity
- ❑ Having an appropriate estimate of cost of capital
- ❑ Conservatism in issuance of equity or dilutive instruments
- ❑ Ensuring debt is manageable, used only for projects with adequate returns
- ❑ Returning excess cash to shareholders
- ❑ Discussion in Annual Report on CG

II. Transparency

- ❑ Disclosure of financial targets, eg, three- and five-year ROA/ROE
- ❑ Timely release of Annual Report
- ❑ Timely release of semi-annual financial announcements
- ❑ Timely release of quarterly results
- ❑ Prompt disclosure of results with no leakage ahead of announcement
- ❑ Clear and informative results disclosure
- ❑ Accounts presented according to IGAAP
- ❑ Prompt disclosure of market-sensitive information
- ❑ Accessibility of investors to senior management
- ❑ Website where announcements updated promptly

III. Independence

- ❑ Board and senior management treatment of shareholders
- ❑ Chairman who is independent from management
- ❑ Executive management committee comprised differently from the board
- ❑ Audit committee chaired by independent director

- ❑ Remuneration committee chaired by independent director
- ❑ Nominating committee chaired by independent director
- ❑ External auditors unrelated to the company
- ❑ No representatives of banks or other large creditors on the board

IV. Accountability

- ❑ Board plays a supervisory rather than executive role
- ❑ Non-executive directors demonstrably independent
- ❑ Independent, non-executive directors at least half of the board
- ❑ Foreign nationals presence on the board
- ❑ Full board meetings at least every quarter
- ❑ Board members able to exercise effective scrutiny
- ❑ Audit committee that nominates and reviews work of external auditors
- ❑ Audit committee that supervises internal audit and accounting procedures

V. Responsibility

- ❑ Acting effectively against individuals who have transgressed
- ❑ Record on taking measures in cases of mismanagement
- ❑ Measures to protect minority interests
- ❑ Mechanisms to allow punishment of executive/management committee
- ❑ Share trading by board members fair and fully transparent
- ❑ Board small enough to be efficient and effective

VI. Fairness

- ❑ Majority shareholders treatment of minority shareholders
- ❑ All equity holders having right to call general meetings
- ❑ Voting methods easily accessible (eg, through proxy voting)
- ❑ Quality of information provided for general meetings
- ❑ Guiding market expectations on fundamentals
- ❑ Issuance of ADRs or placement of shares fair to all shareholders
- ❑ Controlling shareholder group owning less than 40% of company
- ❑ Portfolio investors owning at least 20% of voting shares
- ❑ Priority given to investor relations
- ❑ Total board remuneration rising no faster than net profits

VII. Social awareness

- ❑ Explicit policy emphasising strict ethical behaviour
- ❑ Not employing the under-aged
- ❑ Explicit equal employment policy
- ❑ Adherence to specified industry guidelines on sourcing of materials
- ❑ Explicit policy on environmental responsibility
- ❑ Abstaining from countries where leaders lack legitimacy (eg, Myanmar)

CG score can be considered by itself or to provide market or sector CG ranking

The questionnaire was designed to give a numeric for our ranking of a company on each of the seven CG criteria, and a weighted overall CG score for the company. This figure, stated as a percentage, would reflect our view on the CG level of the company considered in itself, but also provides a ranking for each company within its market and within its sector across GEMs. Both these rankings are provided in this report.

Trade-off in assessing form rather than substance

Over the six weeks to end-March 2001, CLSA's team of analysts on the ground scored 495 companies in 25 countries. No system of rating companies for CG will be perfect. The risk is assessing and scoring for form rather than substance. There is little point in having nominally independent directors on the board if they are in fact friends of the major shareholders who give the major shareholders complete leeway to do with the company as they choose. Providing financials promptly is irrelevant if the numbers misrepresent. A policy statement that says CG is important, and a few paragraphs in an annual report that give lip service to CG can be just that – lip service.

Subjectivity necessarily creeps in determining commitment of management

Hence, what may be regarded as the "soft" or qualitative side to CG cannot be ignored, ie, to determine the real commitment of management and major shareholders to high standards of governance. Not having any such questions would mean assessing only form irrespective of substance; having too many questions to judge the commitment of management results in a greater element of subjectivity that creeps in. The balance we have arrived at is that 16 of the 57 questions – just under 30% – is an assessment of the commitment of the company to particular aspects of CG where there is some interpretation required of the analyst. (Nevertheless, the analyst has to provide a definite yes/no answer to reduce the degree of subjectivity for assessing these issues.) The other 70% of the questions are based on hard facts, like whether the chairman is independent, whether there are independent directors heading nomination and remuneration committees, whether the board meets at least four times a year, etc.

CG score and ranking now part of CLSA's investment recommendation process

The answers to the questions are based on the best information available to the analysts. There could well be controversy over whether certain companies should rate higher or lower. However, this approach gives us a formal method to assess CG in the companies that we cover. We believe that the rankings we have arrived at are a fair reflection of the position of companies in the CG rankings in their market and within their sectors across GEMs. The CG score and ranking is now part of the investment recommendation process that CLSA's analysts employ – we have CG assessment boxes are in all reports that we publish, since January 2001. Our CG numeric also provides investors with a means of judging the level of CG risk in holding a stock as indicated by our score. The rankings can be used to create a portfolio of companies ranked as having higher levels of CG in each of the markets or sectors.

OECD principles are often cited

Figure 4

Summary of OECD principles

The OECD Principles of Corporate Governance are the best known and most frequently cited principles. However, as stated in its preamble, the OECD Principles are non-binding and do not aim at detailed prescriptions for national legislation. Rather, their purpose is to serve as a starting point for policy makers and market participants, as they examine and develop their legal and regulatory frameworks for CG that reflect their own economic, social, legal and cultural circumstances.

I. Rights of shareholders – The CG framework should protect shareholders' rights.

II. Equitable treatment of shareholders – The CG framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights.

III. Role of stakeholders in CG – The CG framework should recognise stakeholders rights as established by law and encourage active cooperation between corporations and stakeholders in creating wealth, jobs and the sustainability of financially-sound enterprises.

IV. Disclosure and transparency – The CG framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership and governance of the company.

V. Board responsibilities – The CG framework should ensure the strategic guidance of the company, the effective monitoring of management by the board and the board's accountability to the company and the shareholders.

Source: OECD

Similar principles issued by both OECD and APEC

Figure 5

CG principles

OECD (1999)	APEC (1998)
Equitable treatment of shareholders	Equitable treatment of shareholders
Rights of shareholders Role of stakeholders in CG Responsibilities of the board	Establishment of clear rights and responsibilities of shareholders, directors and managers
Disclosure and transparency	Timely and accurate disclosure of information Establishment of effective and enforceable accountability standards

Source: CLSA Emerging Markets

Saints and sinners across GEMs

Much higher score for large caps; bottom CG companies significantly below the average

Figure 6

Average scores across GEM companies (%)

	Avg score	Avg score of largest 50 companies[1]	Avg of top CG decile	Avg of bottom CG decile
Discipline	49.9	66.9	73.8	29.3
Transparency	57.5	71.4	72.0	42.3
Independence	56.6	72.3	77.0	19.5
Accountability	48.1	65.5	73.5	26.1
Responsibility	51.5	69.7	78.0	23.2
Fairness	63.2	77.4	85.4	26.7
Social awareness	68.4	83.7	86.0	56.7
Weighted CG score	55.9	71.8	77.6	30.7

[1]US$8bn market cap and above Source: CLSA Emerging Markets

Average score is 55.9%; higher on social awareness and fairness; weaker on accountability and discipline

Across our sample of 495 companies in emerging markets, the average score for CG was 55.9%. The companies ranked better on social awareness and fairness (above 63% for each category), but much poorer on accountability and discipline (below 50% average on each). This reflects that the greater problems are in accountability of management to the board and the ability of the company to correct for mismanagement.

Core coverage being companies of institutional-investor interest leads to sampling bias

The higher scores for fairness and social responsibility, and even the average rather high CG score, might strike many as surprising. (It did for this analyst who had sleepless nights wrestling with the high score derived from the global team.) It would appear to be affected by sample bias. The large sample surveyed consists of companies that our analysts consider worth covering in emerging markets. Most of the large companies are covered irrespective of our view on their investment attractions. Being bigger, these companies have greater resources to at least provide the form of relatively good CG standards. However, beyond the largest stocks in each market, our coverage would be biased towards companies that we see as likely to be of interest to institutional investors and in making this decision, an inherent sampling bias creeps in.

The worst companies on CG are generally no longer covered

The worst companies are no longer being covered after fiascos revealed in the financial crisis. For example: pre-crisis, Ekran was one of the hottest stocks in Malaysia and was awarded the US$6bn Bakun dam project in 1996. Three years later, after failing to get the project off the ground and also lending its financially strapped major shareholder RM710m (US$187m), Ekran has seen its market cap fall by 95% and is now no longer covered by any of the major institutional houses, including CLSA.

Figure 7

Top and bottom CG companies in overall CLSA sample

Company	Country	Discipline (15%)	Transp. (15%)	Indep. (15%)	A/C ability (15%)	Resp. (15%)	Fairness (15%)	Social (10%)	Wgtd CG (100%)
Top 25 CG companies									
HSBC	Hong Kong	88.9	90.0	100.0	100.0	83.3	94.4	100.0	93.5
Infosys	India	88.9	90.0	92.9	100.0	83.3	100.0	100.0	93.3
Singapore Airlines	Singapore	88.9	70.0	100.0	62.5	100.0	94.4	83.3	85.7
HDFC Bank	India	88.9	70.0	78.6	75.0	100.0	88.9	100.0	85.2
Li & Fung	Hong Kong	100.0	70.0	71.4	75.0	83.3	94.4	100.0	84.1
Neptune Orient Lines	Singapore	100.0	70.0	100.0	62.5	83.3	88.9	83.3	84.0
Richemont	South Africa	66.7	70.0	92.9	87.5	100.0	88.9	66.7	82.6
CLP	Hong Kong	88.9	90.0	92.9	75.0	83.3	50.0	100.0	82.0
SA Breweries plc	South Africa	77.8	70.0	92.9	87.5	83.3	88.9	66.7	81.7
S'pore Press Holdings	Singapore	66.7	80.0	85.7	87.5	66.7	94.4	83.3	80.5
Wipro	India	88.9	70.0	78.6	75.0	66.7	88.9	100.0	80.2
Stanbic	South Africa	88.9	70.0	42.9	87.5	83.3	88.9	100.0	79.2
Remgro	South Africa	66.7	70.0	92.9	75.0	83.3	94.4	66.7	79.0
Anglogold	South Africa	55.6	80.0	71.4	75.0	100.0	77.8	100.0	79.0
Bidvest	South Africa	55.6	60.0	85.7	75.0	83.3	100.0	100.0	78.9
Coronation	South Africa	66.7	50.0	85.7	87.5	100.0	88.9	66.7	78.5
Harmony	South Africa	55.6	80.0	78.6	75.0	83.3	83.3	100.0	78.4
Goldfields	South Africa	55.6	70.0	71.4	75.0	100.0	83.3	100.0	78.3
BAT	Malaysia	77.8	80.0	100.0	50.0	83.3	94.4	50.0	77.8
AIS	Thailand	55.6	70.0	92.9	100.0	66.7	88.9	66.7	77.8
FirstRand	South Africa	88.9	60.0	42.9	87.5	83.3	88.9	100.0	77.7
HDFC	India	77.8	50.0	78.6	75.0	83.3	83.3	100.0	77.2
Tanjong	Malaysia	66.7	70.0	92.9	62.5	83.3	94.4	66.7	77.1
TSMC	Taiwan	100.0	100.0	42.9	87.5	66.7	50.0	100.0	77.1
Carlsberg	Malaysia	55.6	80.0	78.6	87.5	66.7	88.9	83.3	76.9
Bottom 25 CG companies									
Bank Central Asia	Indonesia	33.3	80.0	21.4	12.5	16.7	38.9	16.7	32.1
Kalbe Farma	Indonesia	11.1	60.0	7.1	12.5	33.3	77.8	16.7	31.9
MAS	Malaysia	33.3	50.0	21.4	12.5	33.3	27.8	50.0	31.8
Metrobank	PH	33.3	40.0	21.4	37.5	33.3	11.1	50.0	31.5
Dogan Yayin Holding	Turkey	22.2	20.0	28.6	25.0	16.7	72.2	33.3	31.0
TRI	Malaysia	11.1	40.0	21.4	50.0	16.7	22.2	66.7	30.9
Guangdong Power	China	22.2	30.0	7.1	12.5	16.7	61.1	83.3	30.8
ICI Pakistan Ltd	Pakistan	22.2	30.0	28.6	12.5	33.3	22.2	83.3	30.7
Equitable-PCI Bank	Philippines	11.1	40.0	21.4	50.0	16.7	16.7	66.7	30.0
Southeast Power	China	11.1	30.0	7.1	12.5	16.7	66.7	83.3	29.9
Filinvest Land	PH	44.4	30.0	21.4	25.0	16.7	16.7	66.7	29.8
Vestel	Turkey	33.3	40.0	21.4	12.5	16.7	16.7	83.3	29.4
Askari Bank	Pakistan	33.3	40.0	14.3	12.5	16.7	27.8	66.7	28.4
Magnum	Malaysia	11.1	50.0	21.4	12.5	16.7	27.8	66.7	27.6
Btoto	Malaysia	0.0	50.0	21.4	25.0	16.7	16.7	66.7	26.1
Metro Pacific	Philippines	33.3	20.0	21.4	25.0	0.0	16.7	83.3	25.8
Hub Power	Pakistan	33.3	20.0	14.3	25.0	0.0	22.2	83.3	25.6
Dewan Salman	Pakistan	33.3	33.3	33.3	22.2	22.2	16.7	11.1	25.3
Indofood	Indonesia	22.2	50.0	14.3	12.5	33.3	22.2	16.7	24.9
UEM	Malaysia	33.3	30.0	21.4	12.5	16.7	16.7	50.0	24.6
Fauji Fertilizer	Pakistan	22.2	22.2	22.2	22.2	22.2	16.7	22.2	21.4
Pakistan Telecom	Pakistan	33.3	10.0	14.3	12.5	16.7	16.7	33.3	18.9
Indah Kiat	Indonesia	22.2	40.0	14.3	12.5	0.0	11.1	33.3	18.4
Lukoil	Russia	22.2	0.0	7.1	12.5	33.3	16.7	16.7	15.4
Indocement	Indonesia	11.1	20.0	21.4	12.5	0.0	5.6	33.3	13.9

Source: CLSA Emerging Markets

For top and bottom decile, 47 point spread in CG scores; lower scores for bottom decile for independence, responsibility and fairness

Because of the sampling bias (which is akin to the survivor biases in looking at index performances over long periods) the overall score quite certainly overstates the actual degree of CG in emerging markets. To some extent, this is reflected in the range of scores of companies ranked in our survey. The top CG decile across GEMs had an average score of 77.6%, while the bottom CG decile had an average score of just 30.7%. For these companies that are weakest in CG, the areas they score lowest on are independence and responsibility (these companies scoring barely 20% on these categories) with fairness being also an obvious area that they fall quite short of the average (36.5 points between the average score and those in the lowest decile for this category).

Largest companies on average 16ppts higher than overall average CG score

The largest companies had much higher scores. The top 10% of the sample by market cap, were capitalised at above US$7.5bn. Their average overall CG score was 71.8%, ie, 15.9ppts, in effect 28% higher than the average CG score for the whole sample. Of the largest 100 companies in the sample, the ones with outstanding CG are HSBC, **Infosys**, **SIA**, Li & Fung, Richemont, **CLP**, South African Breweries, **Singapore Press Holdings**, Wipro and **Stanbric** (our BUYs among these are in bold). Among the large caps, the ones that we assess to have the lowest CG are Lukoil, TPSA, **Isbank**, **Tenaga**, **PCCW**, **China Unicom**, **Hutchison**, CITIC Pacific, KT Freetel and **Shinhan Bank** (our SELLs/SWITCH among these are in bold).

Figure 8

CG scores of big caps – 100 largest companies in emerging markets

Company	Country	Discipline (15%)	Transp. (15%)	Indep. (15%)	A/C ability (15%)	Resp. (15%)	Fairness (15%)	Social (10%)	Wgtd CG (100%)
Top half by CG									
HSBC	Hong Kong	88.9	90.0	100.0	100.0	83.3	94.4	100.0	93.5
Infosys	India	88.9	90.0	92.9	100.0	83.3	100.0	100.0	93.3
Singapore Airlines	Singapore	88.9	70.0	100.0	62.5	100.0	94.4	83.3	85.7
Li & Fung	Hong Kong	100.0	70.0	71.4	75.0	83.3	94.4	100.0	84.1
Richemont	South Africa	66.7	70.0	92.9	87.5	100.0	88.9	66.7	82.6
CLP	Hong Kong	88.9	90.0	92.9	75.0	83.3	50.0	100.0	82.0
SA Breweries plc	South Africa	77.8	70.0	92.9	87.5	83.3	88.9	66.7	81.7
Singapore Press	Singapore	66.7	80.0	85.7	87.5	66.7	94.4	83.3	80.5
Wipro	India	88.9	70.0	78.6	75.0	66.7	88.9	100.0	80.2
Stanbic	South Africa	88.9	70.0	42.9	87.5	83.3	88.9	100.0	79.2
FirstRand	South Africa	88.9	60.0	42.9	87.5	83.3	88.9	100.0	77.7
TSMC	Taiwan	100.0	100.0	42.9	87.5	66.7	50.0	100.0	77.1
Cathay Pacific	Hong Kong	44.4	70.0	71.4	87.5	83.3	83.3	100.0	76.0
Nedcor	South Africa	66.7	70.0	42.9	87.5	83.3	88.9	100.0	75.9
Ambev	Brazil	77.8	80.0	35.7	87.5	66.7	83.3	100.0	74.6
DBS Group	Singapore	44.4	90.0	92.9	62.5	66.7	94.4	66.7	74.3
Cemex	Mexico	66.7	70.0	78.6	50.0	66.7	94.4	100.0	74.0
Hong Kong Gas	Hong Kong	77.8	80.0	78.6	50.0	83.3	50.0	100.0	73.0
ST Engg	Singapore	100.0	90.0	64.3	25.0	83.3	88.9	50.0	72.7
De Beers	South Africa	55.6	30.0	92.9	75.0	83.3	77.8	100.0	72.2
Hang Seng	Hong Kong	55.6	70.0	78.6	75.0	83.3	72.2	66.7	71.9
Modelo	Mexico	77.8	90.0	35.7	75.0	50.0	83.3	100.0	71.8
Legend	China	55.6	70.0	85.7	62.5	66.7	77.8	83.3	71.1
Embraer	Brazil	88.9	100.0	78.6	50.0	66.7	33.3	83.3	71.0
OUB	Singapore	66.7	80.0	78.6	37.5	66.7	94.4	66.7	70.2
Johnson Electric	Hong Kong	44.4	70.0	71.4	62.5	83.3	88.9	66.7	69.8
M-Cell	South Africa	66.7	50.0	85.7	62.5	66.7	77.8	83.3	69.7
Swire	Hong Kong	66.7	60.0	64.3	75.0	33.3	94.4	100.0	69.1
Billiton	South Africa	33.3	70.0	28.6	75.0	83.3	100.0	100.0	68.5
Hongkong Electric	Hong Kong	77.8	70.0	71.4	50.0	66.7	50.0	100.0	67.9
Banco Itaú	Brazil	77.8	80.0	85.7	75.0	50.0	27.8	83.3	67.8
Implats	South Africa	55.6	50.0	92.9	75.0	66.7	44.4	100.0	67.7
Dimension Data	South Africa	66.7	60.0	21.4	62.5	100.0	94.4	66.7	67.4
Hindustan Lever	India	88.9	50.0	78.6	37.5	33.3	94.4	100.0	67.4
ITC	India	66.7	50.0	92.9	37.5	33.3	100.0	100.0	67.1
Old Mutual	South Africa	66.7	50.0	78.6	50.0	66.7	88.9	66.7	66.8
Capitaland	Singapore	33.3	80.0	92.9	87.5	83.3	44.4	33.3	66.6
Maybank	Malaysia	66.7	60.0	100.0	50.0	50.0	77.8	50.0	65.7
Angloplat	South Africa	55.6	50.0	92.9	75.0	50.0	44.4	100.0	65.2
Hongkong Land	Hong Kong	44.4	80.0	42.9	75.0	100.0	33.3	83.3	64.7
Anglo American	South Africa	44.4	70.0	42.9	62.5	50.0	94.4	100.0	64.6
Singtel	Singapore	66.7	60.0	92.9	50.0	83.3	44.4	50.0	64.6
OCBC	Singapore	33.3	90.0	85.7	37.5	50.0	88.9	66.7	64.5
Chartered	Singapore	33.3	80.0	92.9	62.5	50.0	77.8	50.0	64.5
America Movil	Mexico	66.7	90.0	64.3	50.0	66.7	33.3	83.3	64.0
Jardine Matheson	Singapore	55.6	80.0	21.4	62.5	50.0	88.9	100.0	63.8
UOB	Singapore	33.3	80.0	78.6	37.5	66.7	83.3	66.7	63.6
Telmex	Mexico	55.6	60.0	71.4	62.5	50.0	72.2	66.7	62.4
VIA	Taiwan	66.7	30.0	85.7	12.5	50.0	100.0	100.0	61.7
CNOOC	China	66.7	80.0	28.6	50.0	66.7	83.3	50.0	61.3

Continued on next page

Figure 8

CG scores of big caps – 100 largest companies in emerging markets (continued)

Company	Country	Discipline (15%)	Transp. (15%)	Indep. (15%)	A/C ability (15%)	Resp. (15%)	Fairness (15%)	Social (10%)	Wgtd CG (100%)
Bottom half by CG									
Copec	Chile	77.8	50.0	85.7	50.0	33.3	66.7	66.7	61.2
Winbond	Taiwan	55.6	90.0	85.7	75.0	16.7	38.9	66.7	60.9
Alpha Credit Bank	Greece	44.4	50.0	85.7	75.0	83.3	33.3	50.0	60.8
Reliance Industries	India	88.9	50.0	28.6	75.0	66.7	44.4	66.7	59.7
Quanta	Taiwan	55.6	30.0	85.7	25.0	50.0	88.9	83.3	58.6
Sun Hung Kai Properties	Hong Kong	33.3	70.0	35.7	37.5	83.3	83.3	66.7	58.1
Taiwan Cellular Corp.	Taiwan	66.7	30.0	85.7	87.5	33.3	38.9	66.7	58.0
Housing & Comm Bank	Korea	55.6	70.0	64.3	62.5	16.7	83.3	50.0	57.9
Asustek	Taiwan	55.6	20.0	85.7	12.5	50.0	100.0	83.3	56.9
Embratel	Brazil	66.7	60.0	85.7	62.5	33.3	16.7	66.7	55.4
Henderson Land	Hong Kong	33.3	70.0	35.7	37.5	66.7	77.8	66.7	54.8
Wharf	Hong Kong	22.2	70.0	35.7	37.5	66.7	77.8	83.3	54.8
Banacci	Mexico	33.3	70.0	78.6	75.0	33.3	16.7	83.3	54.4
Sasol	South Africa	66.7	60.0	57.1	0.0	66.7	77.8	50.0	54.2
Cheung Kong	Hong Kong	33.3	60.0	35.7	37.5	66.7	83.3	66.7	54.1
National Bank of Greece	Greece	55.6	50.0	78.6	50.0	50.0	38.9	50.0	53.5
Bancomer	Mexico	33.3	70.0	78.6	75.0	16.7	16.7	83.3	51.9
Reliance Petroleum	India	100.0	20.0	28.6	75.0	50.0	22.2	66.7	51.0
Eletrobras	Brazil	22.2	50.0	35.7	62.5	33.3	66.7	100.0	50.6
Formosa Plastics	Taiwan	33.3	60.0	85.7	50.0	33.3	27.8	66.7	50.2
ONGC	India	66.7	10.0	14.3	75.0	33.3	77.8	83.3	49.9
SK Telecom	Korea	44.4	70.0	14.3	62.5	50.0	33.3	83.3	49.5
POSCO	Korea	44.4	40.0	42.9	75.0	33.3	38.9	83.3	49.5
Kookmin Bank	Korea	22.2	60.0	57.1	62.5	16.7	77.8	50.0	49.4
Nan Ya Plastics	Taiwan	44.4	60.0	85.7	50.0	16.7	27.8	66.7	49.4
UMC	Taiwan	55.6	70.0	28.6	62.5	16.7	38.9	83.3	49.2
Cathay Life	Taiwan	44.4	70.0	85.7	25.0	16.7	27.8	83.3	48.8
China Mobile	China	66.7	70.0	14.3	0.0	66.7	83.3	33.3	48.5
Telekom Malaysia	Malaysia	22.2	80.0	78.6	25.0	33.3	27.8	83.3	48.4
Turkcell	Turkey	88.9	30.0	28.6	37.5	66.7	27.8	50.0	46.9
Telemar	Brazil	22.2	60.0	71.4	50.0	33.3	27.8	66.7	46.4
Korea Telecom	Korea	55.6	60.0	14.3	62.5	33.3	22.2	83.3	45.5
China Mobile	Hong Kong	66.7	60.0	14.3	0.0	66.7	83.3	16.7	45.3
CDIB	Taiwan	22.2	70.0	78.6	25.0	16.7	33.3	83.3	45.2
CITIC Pacific	China	22.2	50.0	21.4	62.5	33.3	77.8	50.0	45.1
PetroChina	China	66.7	60.0	28.6	50.0	33.3	27.8	50.0	45.0
Sinopec	China	66.7	60.0	28.6	50.0	33.3	27.8	50.0	45.0
Unicom	China	55.6	60.0	14.3	12.5	50.0	83.3	33.3	44.7
Hon Hai	Taiwan	66.7	20.0	85.7	25.0	50.0	27.8	33.3	44.6
Samsung Electronics	Korea	33.3	60.0	35.7	37.5	33.3	38.9	83.3	44.1
Shinhan Bank	Korea	44.4	70.0	57.1	50.0	16.7	22.2	50.0	44.1
KT Freetel	Korea	44.4	50.0	14.3	62.5	50.0	16.7	83.3	44.0
CITIC Pacific	Hong Kong	22.2	40.0	21.4	62.5	33.3	77.8	50.0	43.6
Hutchison	Hong Kong	33.3	40.0	7.1	37.5	33.3	88.9	66.7	42.7
China Unicom	Hong Kong	55.6	50.0	14.3	12.5	50.0	83.3	16.7	41.5
PCCW	Hong Kong	22.2	40.0	64.3	0.0	50.0	72.2	33.3	40.6
Tenaga	Malaysia	44.4	50.0	28.6	37.5	33.3	27.8	66.7	39.9
Isbank	Turkey	11.1	40.0	28.6	50.0	16.7	72.2	50.0	37.8
TPSA	Poland	11.1	20.0	78.6	100.0	16.7	0.0	0.0	34.0
Lukoil	Russia	22.2	0.0	7.1	12.5	33.3	16.7	16.7	15.4

Source: CLSA Emerging Markets

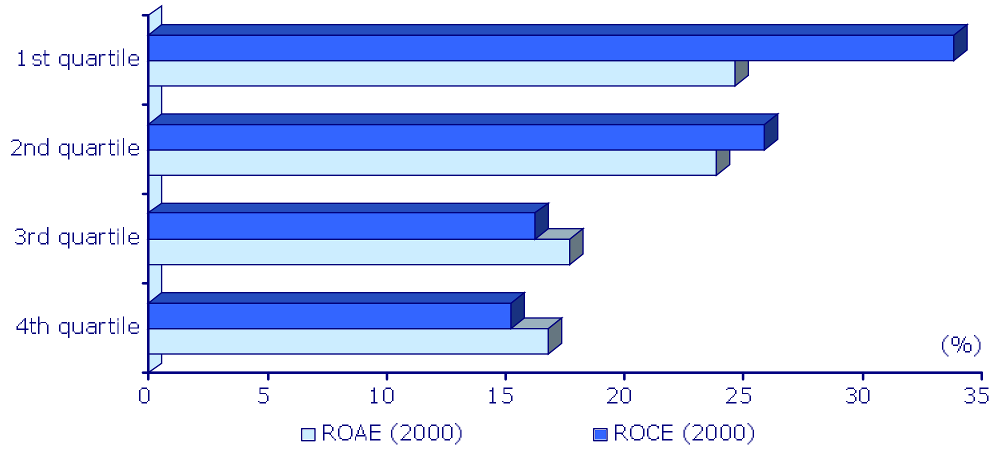
GEM large caps: Top CG companies come nicely packaged

Strong correlation between CG and financial performance, valuations and share-price performance for the largest companies

The correlation between CG against financial performance, valuations and share-price performance are incredibly striking for the largest stocks in emerging markets. These correlations support similar evidence found in each country and across most emerging market sectors. The average ROCE, ROE and EVA™ over invested capital (EVA™/IC) moves down nearly perfectly as we move down the big caps ranked in CG quartiles among the 100 largest companies in emerging markets (exactly 100 with market caps above US$3.6bn). There is also a near perfect correlation against PB valuations, although a less clear correlation with PE multiples. However, the correlation with share-price performance is very strong. The top quartile by CG among emerging market big caps outperformed the overall big caps by 12ppts for year 2000 (performance comparisons on a simple average basis), and provided average returns more than double that of the basket of big caps over three and five years. Big cap companies with poor CG have been underperformers against other big caps, particularly over the past three and five years.

Figure 9

ROCE and ROAE of 100 largest GEM companies by CG quartiles



Source: CLSA Emerging Markets

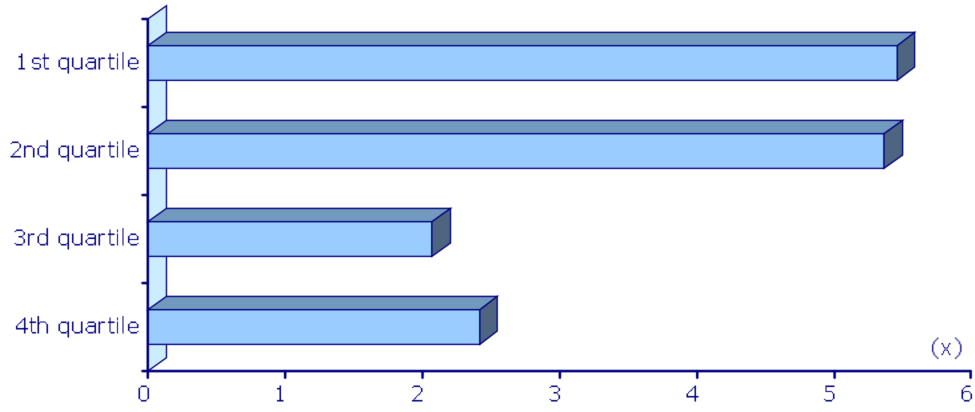
Among the large caps, high CG companies are clear value creators

The average ROCE of these largest stocks is 23.5% for FY00. The top 25 companies on CG rankings (top quartile) had an average ROCE of 33.8% and the second quartile's average ROCE was 27%. The average ROCE of the companies in the two lower quartiles was significantly below at 16%. This has also generated higher ROEs for the top CG companies. Of the large caps, the average ROE was 21.2%; the top two quartile CG companies generated an average ROE of nearly 25% while the bottom two quartile companies had average ROEs of below 18%. Similarly for EVA™/IC, the average for large caps was 5.6% with the top CG quartile average for these at 11.0%, the second quartile at 9.5% with the bottom half companies averaging just 1.3%.

High CG companies are quite clearly value creators

Figure 10

PB multiples of 100 largest GEM companies by CG quartiles



Source: CLSA Emerging Markets

Top CG companies are at substantially higher PBs

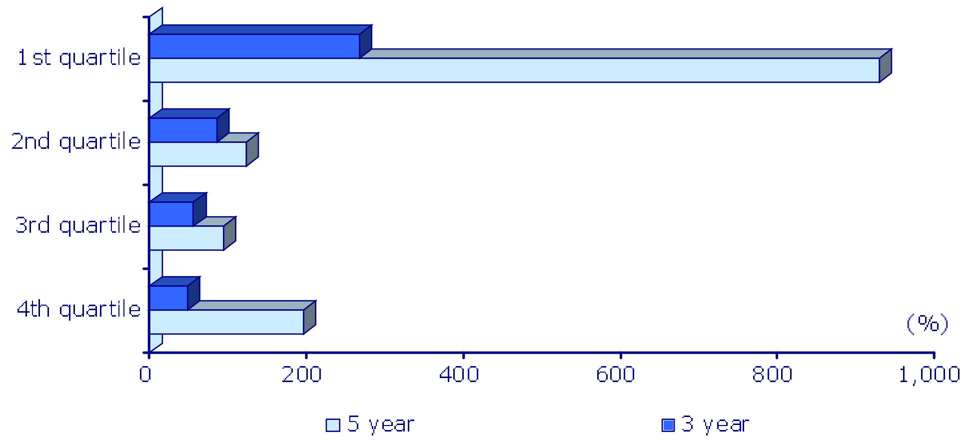
Given the correlation with ROEs, it is hardly surprising that high CG companies also trade at higher book multiples. The average PB multiple of the largest 100 companies in emerging markets is 3.9x (on end-FY00 book and current share prices). The top two quartiles for CG had average book multiples of 5.5x and 5.6x respectively; the bottom two quartiles had their stocks trading at below 2.5x book.

Correlation with PEs less strong but top half CG companies are at slight premium, some of the bottom companies at high PE on compressed FY01 earnings

The correlation with PEs, however, is not strong. For PE multiple analysis, we have used our estimated FY01 PE given the contraction in earnings expected this year for a number of companies which would be what share prices are reflecting rather than the historic FY00 profits. Although the top two quartiles were at PE multiples of 16.4-16.7x, slightly higher than the overall sample average of 15.6x, the bottom quartile companies average PE is 23.4x. The high PE for the bottom quartile is owing to the multiples on **China Unicom**, China Mobile, **IS Bank**, **Cathay Life**, **Telekom Malaysia** and **TurkCell** (we have SELLs/SWITCH recommendations on stocks in bold). The third quartile companies however are at a low average multiple of 5.3x brought down by ONGC of India, Winbond, Banacci and Bancomer.

Figure 11

Average three- and five-year share-price performance of 100 largest GEM companies by CG quartile



Source: CLSA Emerging Markets

Near perfect relationship between share-price performance and average performance by CG quartile

The correlation between quartiles of CG companies and their average share-price performance is near perfect for large caps, whether it be for the past one, three or five years (price performance data is to end-2000 and adjusted to US$). Over 2000, share-price returns have been poor in absolute terms. The (unweighted) average performance of the largest 100 companies in emerging markets was -8.7%. But the top quartile CG companies provided an average return of 3.3%, 12ppts above the average. Of these, a number had a stellar year for share-price performance last year, including Li & Fung, Ambev and Embraer (>50%) with solid performance also from HongKong Gas, ST Engineering, Hang Seng Bank and Modelo (10-20% share-price performance in 2000). The average performance for stocks in the third CG quartile of large caps was -15.7% and in the bottom quartile the stocks fell an average of 23.4% last year. Among the big cap stocks, those in the lower half of our CG rankings that were major underperformers in 2000 are PCCW, Asustek, Winbond, Quanta, UMC, SK Telecom and KT Freetel.

Massive compounded outperformance for high CG companies

The compounded effect of stock outperformance in the highest CG brackets is quite striking. The average compounded annual return of the top CG quartile of these 100 largest stocks over the past three years has been 54.3%, and 59.4% over the past five years. This compares with the average compounded annual return of 31.5% for the 100 largest stocks over the previous three years and 37.3% over the past five years. In total dollar terms, that is 127% for the big caps over the past three years and 388% over the past five years. For the top CG quartile of big caps, the average total performance has been a massive 267% over the past three years and 930% over the past five years, ie, over double the average performance of big caps and significantly higher than all other quartiles.

Although "survivor bias" creeps in, relative comparisons are valid

These results no doubt reflect "survivor bias": companies that would have been in the list of big caps three or five years ago but have underperformed since would not be captured in the averages that we have used, which is based on the current largest 100 stocks. And the outperformance of stocks for companies that earlier were not among the largest 100 but have become since, has been captured in our list, ie, the figures used here overstate the actual returns that would have been obtained in tracking the changing mix of large caps. Nevertheless, the point made by the comparison is still valid, ie, that companies with higher CGs have outperformed within a sample of what are currently the largest stocks in emerging markets, and companies with low CGs have underperformed. A similar conclusion is seen below in the analyses of each country and most regional sectors, where the sample selection bias in determining average share-price performances does not arise.

Bottom CG companies underperformed severely as they lose investor confidence

The bottom CG quartile companies of big caps have underperformed particularly over the past three and five years. This reflects the growing importance of CG over recent years – ie, since the financial crisis hit. Institutional investors are now more wary of stocks seen as having low CG standards which have to be at substantial valuation discounts to generate interest.

CG returns across emerging markets

Our analysis of companies sorted by their CG scores reveals five striking results:

Correlation between CG . . .

1. In ten of the 11 Asian markets and in LatAm, companies in the top quartile for CG in their respective markets have ROEs superior to the market average. Companies that make up the top CG quartile in each market provided on average a ROE that was 10ppts higher than the sample average. In 12 of 15 of the markets analysed, companies in the bottom quartile for CG had a lower ROE than the sample average. A similar result was derived in examining ROCEs.

. . . and ROCE as well as ROEs

2. In 13 of the 15 emerging markets/regions covered, companies that are in the top quartile for CG in that market have a higher EVA™ to invested capital than the market average, providing on average 8ppts higher EVA™/ invested capital. In ten of the 15 emerging markets, companies in the bottom CG quartile have lower EVA™ ratios.

Correlation also with PB valuations . . .

3. In all the Asian markets, and in Eastern Europe and LatAm, companies in the top CG quartile are at PB premiums to the country average. In 14 of the 15 markets, companies in the lowest CG quartile had stocks trading at a discount to the market average. On average, the top quartile CG companies were at 54% PB premiums, while the bottom quartile CG companies were at 43% PB discounts to the sample average for their respective markets.

. . . and three-year share-price performances

4. In every Asian market that we cover and in LatAm, companies in the top quartile for CG have had superior average share-price performance to the market sample average for the past three years (to end-2000). Over all the markets covered, top CG quartile companies on average provided 49ppts outperformance to their respective country-sample averages. In 11 of the 15 markets, companies in the lowest CG quartile underperformed the market sample average over the past three years.

Slightly weaker correlation with 1- and 5-year share-price performances

5. Share-price outperformance was also significant over one and five years, although the relationship is less strong compared to the three-year performance. In 11 of the 15 markets, the top CG quartile companies outperformed over the past five years, and in 12 of the 15, the bottom quartile underperformed. In 11 of the 15 markets, the top quartile outperformed over the year to end-2000, and similarly, in 11 of the 15 markets, bottom CG quartile companies on average underperformed in share-price performance.

High CG-scoring companies that are also value creators will outperform; those with high ROE will be at PB premiums

There is no doubt that there is a relationship between (1) and (2), as well as between (1) and (3). Companies with high ROEs given not too different cost of capital will tend to have higher EVA™ ratios. These companies can also be expected to trade at a higher PB precisely because of the higher ROE they generate. We believe (2) and (4) above are also related: that the companies with high CG scores have enjoyed share-price outperformance is to a large extent due to their being value creators. If they were not, then high CG alone may not generate share-price outperformance.

Stocks with low CG scores trade at a discount to PE

In addition, our country-by-country survey in the sections below also reveals evidence that companies with low CGs have moved to PE discounts. Although the evidence indicates that investors are not yet paying a noticeable PE premium for high CG scores, however companies with poor CG are being shunned and have moved to PE discounts averaging 31%.

Risk of analysts falling in love with a stock that has performed well, but one-year share-price performance not as well correlated with CG as three year share-price performance

A correlation does not imply causation and certainly does not prove that the causation works one way rather than the other. Some might argue that when share prices have done well, the analysts are at risk of falling in love with these companies; hence analysts' CG scoring might err on the generous side for companies with strong share prices. But less than 30% of the total score is based on qualitative or interpretative questions. There is a risk of a company with a strong share price being biased with a relatively higher CG score than another whose share price has been a dog. It nevertheless will not make a company with poor CG standards come out looking like a star, or a company with high standards but a soft share price looking like a CG dog. Indeed, the evidence below shows that our CG correlations are stronger with respect to particularly three-year price performances rather than price performance for just the past 12 months. This indicates that the recent share-price performance has not biased the results significantly.

Companies that are not doing well have more to hide and are likely to have lower CG scores

More likely, companies whose businesses are doing well can afford to be more transparent as well as devote resources to creating a good CG image. But this in itself shows the relevance of CG scoring to investors: beware the companies with low CG scores, which probably have more to hide and are likely to be facing tougher business conditions.

Companies with high CG standards likely to be in businesses doing well and to be creating value for shareholders

The more important conclusion is that companies with high CG standards have less to hide and their businesses are probably doing better. It might be that they are creating greater value for shareholders because of more favourable general circumstances which are reflected in higher CG scores. Still, these remain the stocks that investors should focus on - not just for premium valuations (which might already be reflected in share prices), but also for sustained share-price outperformance supported by high positive EVA™ relative to the markets or the sectors they are in.

Country correlation between CG and financial ratios

Stocks divided into 15 emerging markets/ regions for analysis

We divided the stocks we rated into fifteen main markets/regions for comparative analysis: the 11 main emerging markets of Asia as well as South Africa, Turkey and the rest of Eastern Europe and LatAm each considered as one market segment. This composition was mainly to ensure a sufficient number of companies in each segment in order to derive meaningful comparisons of financials, valuations and share-price performances of stocks sorted by CG.

Strong correlation of stocks sorted by CG quartiles and ROCE . . .

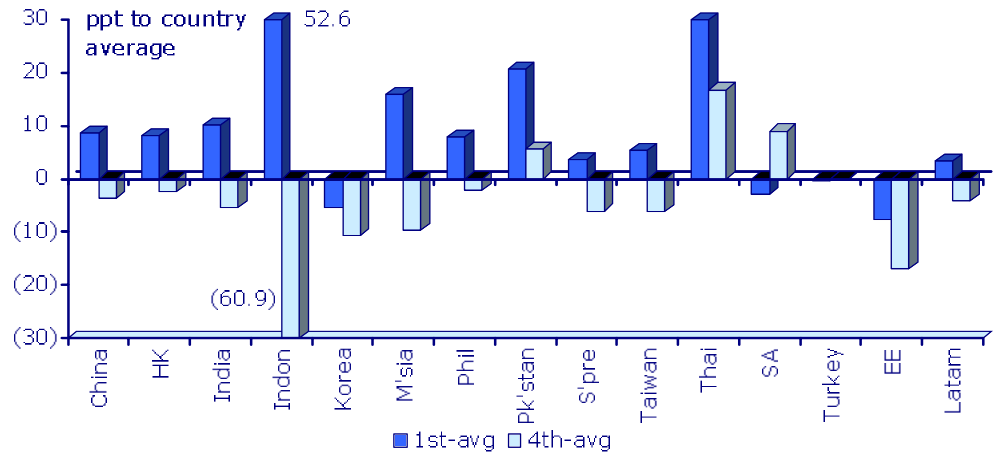
In all but four of the 15 emerging markets under analysis, companies that ranked in the top quartile for CG had higher ROCE than the average. The exceptions were Singapore, Korea, Turkey and South Africa. In 13 of the 15 markets, the companies in the lowest CG quartile had a lower ROCE than its market average. The companies in the top CG quartile on average generated ROCEs 15ppts higher than their country-sample average.

. . . and against ROE

For all countries in Asia except Korea, and in LatAm as a whole, the average ROE of the companies in the top quartile was significantly higher than the market average. The superior ROE of companies with high CG scores was particularly pronounced for Thailand, Malaysia and Indonesia where the top CG quartile had average ROEs 17-39ppts higher than the country average. Across these 15 emerging markets, on average the top quartile CG companies provided ROEs 10ppts higher than the market average. The bottom quartile companies had lower ROEs in 12 of the 15 markets, averaging 6.4ppts lower than their respective markets.

Figure 12

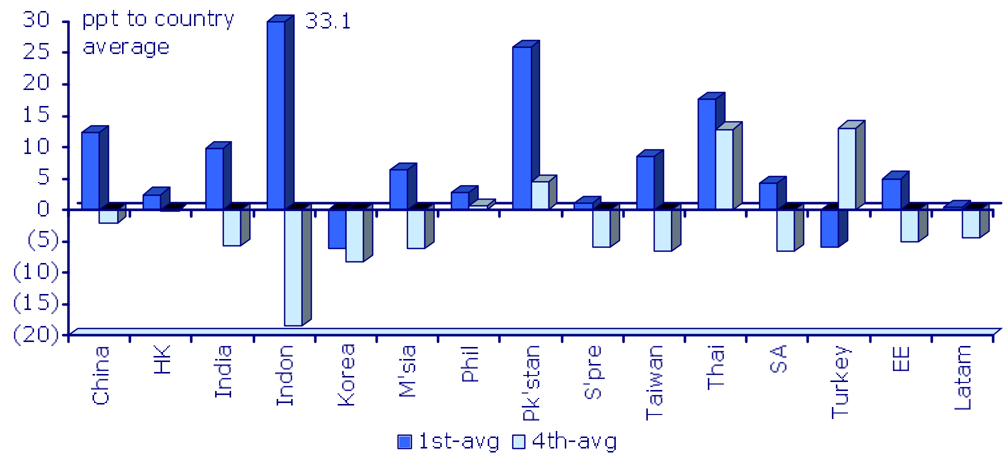
Top and bottom CG quartiles to market average ROEs



Source: CLSA Emerging Markets

Figure 13

Top and bottom CG quartiles to market average EVA™/IC



Source: CLSA Emerging Markets

In all emerging markets except Korea and Turkey, top CG quartile had higher EVATM/IC relative to market average

This correlation naturally leads to a similar relationship between CG and EVA™. The country basket in four of the 11 countries in Asia had an average negative EVA™ (Thailand, Philippines, Korea, LatAm and Hong Kong very marginally). In all but two markets (Turkey and Korea), companies in the top CG quartile have a higher EVA™/IC than the market average (on FY00 financials). And in all but four markets, companies in the lowest CG quartile had lower EVA™/IC than the country average. On average, the top quartile CG companies provided EVA™/IC ratios that were 8ppts higher than their respective market averages, while the bottom CG quartile companies had EVA™/IC ratios that averaged 2ppts lower than their country averages.

Country correlation between CG and valuations

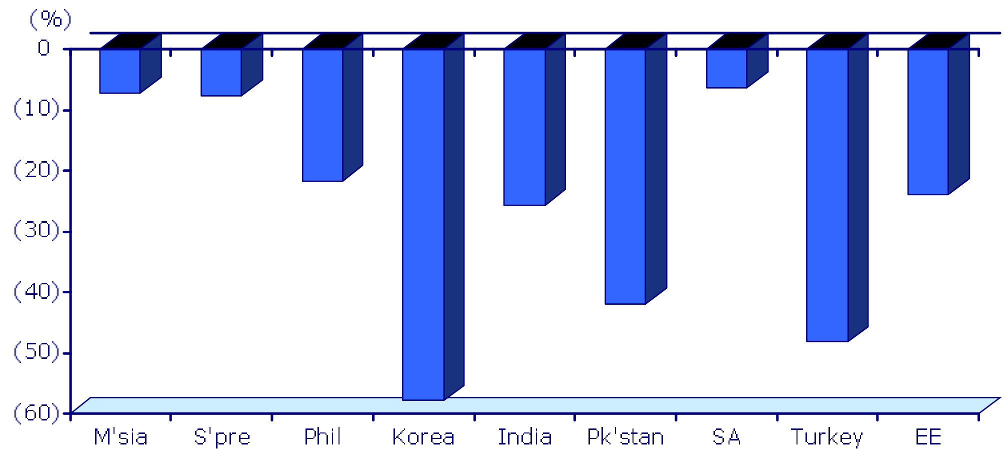
In nine of 14 markets, companies with low CGs are at PE discounts

We did not find a convincing correlation between high CG scoring companies and a PE premium to the market. In only four of the 15 markets were companies in the top CG quartile at a premium to the market. However, there was a more noticeable correlation between having low CG and trading at a PE discount: in eight of the fourteen markets, companies in the lowest

CG quartile were at discounts to their country average PE (except Indonesia, with negative PEs)- the exceptions being Thailand (near zero earnings for low CG scoring companies), Taiwan, Hong Kong, China, South Africa and LatAm. These discounts averaged 31% with significant discounts noticeable in Eastern Europe (23.9% PE discount for lowest CG quartile to country sample average), Philippines (21.7%) India (25.6%), Pakistan (41.9%), Turkey (48.1%) and Korea (75.9% discount).

Figure 14

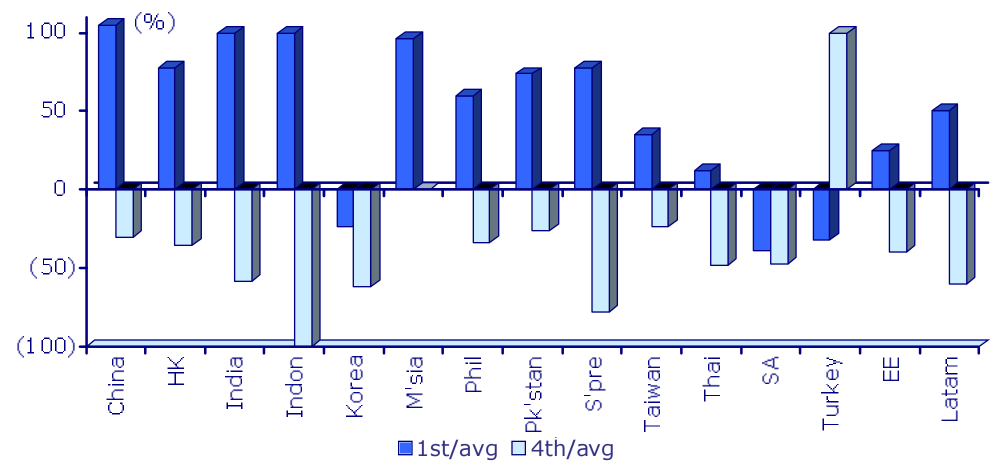
Countries' PE discount of lowest CG quartile companies



Source: CLSA Emerging Markets

Figure 15

Top and bottom CG quartiles over market-average PB



Source: CLSA Emerging Markets

In 12 of 15 markets, the top quartile CG stocks were at PB premiums and bottom CG stocks at a PB discount

The correlation is much more significant in terms of PB valuations to CG. In all but two of the emerging markets (Turkey and South Africa), companies in the top CG quartile had a PB premium to the market average; in every country but one (Turkey) the companies in the lowest quartile were at a PB discount. The average PB premium of the top quartile CG companies was 54% while the average discount of the bottom CG companies was 43%.

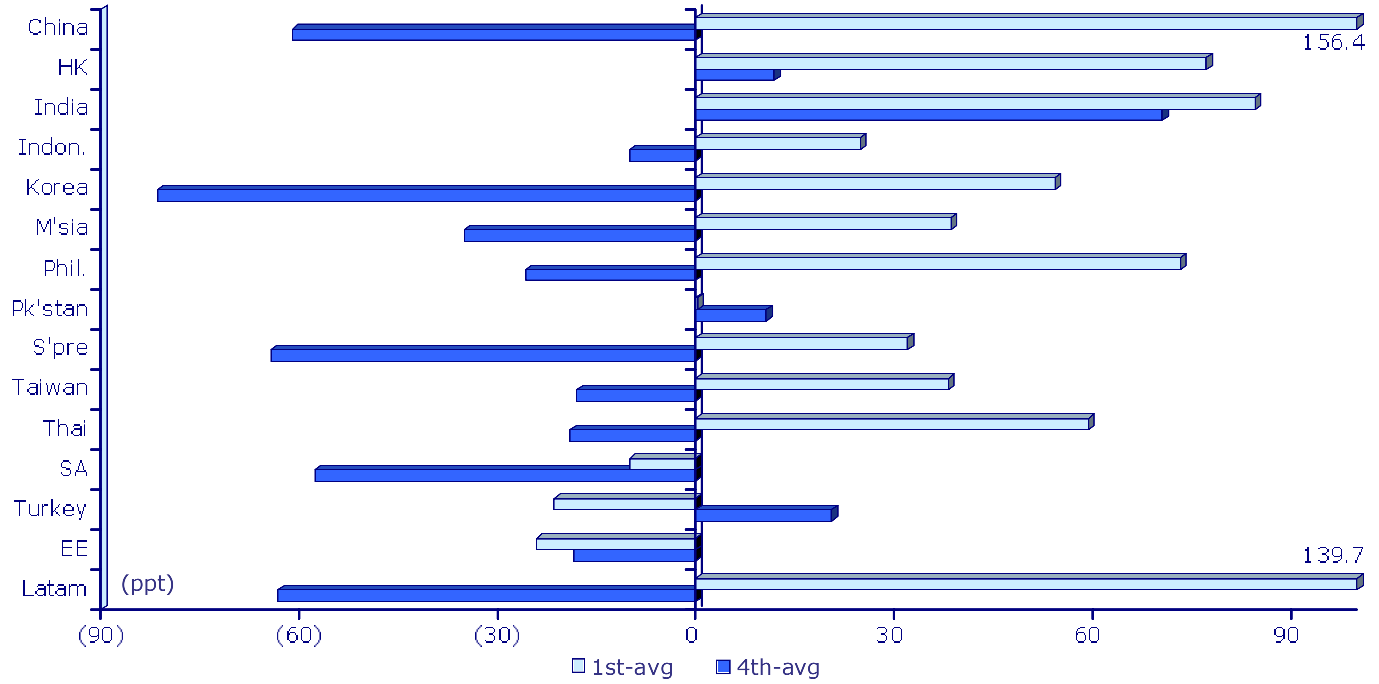
Country correlation between CG and share-price performance

Very strong correlation between CG and share-price performance for three years, particularly in Asia and LatAm

Share prices of companies with high CG scores have been massive outperformers particularly over the past three years. In all the Asian emerging markets covered, companies in the top CG quartile outperformed the market average over the three years to end-2000. This was also the case for LatAm, but Turkey, South Africa and Eastern Europe did not show the same relationship. The average unweighted US$ return of these 15 markets was 24.2% for the three years; the top quartile CG companies outperformed on average by 48.9ppts (including the regions where this segment underperformed). In 11 of these 15 emerging markets, the bottom quartile companies for CG underperformed against the market, averaging at 20ppts underperformance.

Figure 16

CG rankings and market relative performance three years to end-2000 (US$)



Source: CLSA Emerging Markets

Strong outperformance over past five years, and underperformance of low CG companies

Over the past five years, the top quartile CG companies outperformed their market averages in every one of the main Asian markets except Singapore; they also outperformed strongly in LatAm but underperformed in South Africa, Turkey and Eastern Europe. On average, these markets provided a return of 108% by the unweighted average of stocks in our sample. The top CG quartile companies provided a massive 93ppts outperformance while the bottom CG quartile underperformed in all markets except Taiwan, Hong Kong and Turkey. Even including these three markets, on average for the 15 emerging markets/regions analysed, the bottom quartiles underperformed by 35ppts over the five years to end-2000.

In ten of 15 markets, top CG companies outperformed over the past year, in 11 the bottom CG companies underperformed

Even over the relatively short period of the year to end-2000, companies in the top quartile for CG outperformed in 11 of the 15 markets (exceptions were China, South Africa, Turkey and Eastern Europe). Similarly, in all but four of the emerging markets, the bottom quartile CG companies had share-price underperformance against their markets (exceptions were Thailand and China with Singapore and Eastern Europe only marginally so). On average, the top CG quartile companies outperformed their markets slightly (averaging 2ppts) while the bottom quartile CG companies did worse against their market averages (5.7ppts underperformance) with the market samples on average down 20% last year.

Outperformance will persist medium term, as these are value creators and given greater investor focus on CG

The systematic outperformance of companies with high CG standards and the underperformance of those with low CG standards are no fluke. As companies with high CG scores are also value creators – by EVA™ analysis and superior ROEs and ROCEs – these companies would naturally outperform. There is every reason to believe that well-managed companies with high CG scores will also be value creators which will support sustained outperformance. In addition, the greater focus on CG in investment decisions by investors is itself a direct reason for their outperformance. The converse would explain the underperformance of low CG stocks.

Figure 17

Financial, valuation and share-price performance of GEMs ranked by CG quartiles

	Mal	Sing	Thai	Indo	Phil	Korea	Taiwan	China	Hong Kong	India	Pak	South Africa	Turkey	Emerging Europe	LatAm	Avg
ROCE analysis (%)																
1st quartile	29.4	10.1	36.0	134.2	17.0	(16.7)	29.3	36.0	51.9	32.6	52.0	17.2	11.8	17.2	17.8	
2nd quartile	31.3	27.2	(212.7)	21.1	7.0	10.7	31.6	15.2	9.6	18.5	11.9	30.8	37.8	21.5	9.9	
3rd quartile	10.2	14.0	7.0	9.1	7.4	11.8	14.2	18.0	14.3	19.4	(2.6)	25.5	14.4	15.0	10.4	
4th quartile	12.5	8.2	7.3	6.5	3.2	0.2	10.7	15.6	17.2	19.6	30.7	14.2	20.0	8.2	6.3	
Average	***20.2***	***15.0***	***(33.7)***	***49.6***	***9.8***	***1.5***	***20.8***	***22.0***	***22.8***	***22.5***	***25.3***	***21.9***	***22.0***	***15.9***	***11.6***	
1st-avg	*9.2*	*(4.9)*	*69.7*	*84.6*	*7.2*	*(18.2)*	*8.5*	*14.0*	*29.1*	*10.1*	*26.7*	*(4.7)*	*(10.2)*	*1.3*	*6.2*	*15.2*
4th-avg	*(7.7)*	*(6.8)*	*41.0*	*(43.1)*	*(6.6)*	*(1.3)*	*(10.1)*	*(6.4)*	*(5.6)*	*(2.9)*	*5.4*	*(7.7)*	*(2.0)*	*(7.7)*	*(5.3)*	*(4.5)*
ROE analysis (%)																
1st quartile	33.1	17.3	19.2	42.6	13.0	4.3	24.8	25.8	25.4	31.0	36.7	18.1	15.9	13.8	13.9	
2nd quartile	18.9	16.2	(55.8)	10.8	(0.6)	18.5	24.4	12.5	16.6	18.3	4.9	18.7	23.9	19.8	9.3	
3rd quartile	10.5	12.7	(9.9)	(24.3)	4.8	2.3	16.0	14.9	14.7	18.7	(7.0)	16.9	11.5	15.1	9.7	
4th quartile	7.5	7.6	5.8	(70.9)	2.9	(5.0)	13.3	13.6	14.7	15.5	21.6	29.9	16.2	4.6	6.4	
Average	***17.1***	***13.6***	***(11.0)***	***(10.0)***	***5.1***	***5.0***	***19.5***	***17.1***	***17.2***	***20.9***	***16.0***	***20.9***	***16.3***	***21.5***	***10.5***	
1st-avg	*16.0*	*3.7*	*30.2*	*52.6*	*7.9*	*(0.7)*	*5.3*	*8.7*	*8.2*	*10.1*	*20.7*	*(2.8)*	*(0.4)*	*(7.7)*	*3.4*	*10.3*
4th-avg	*(9.6)*	*(6.0)*	*16.8*	*(60.9)*	*(2.2)*	*(10.0)*	*(6.2)*	*(3.5)*	*(2.5)*	*(5.4)*	*5.6*	*9.0*	*(0.1)*	*(16.9)*	*(4.1)*	*(6.4)*
EVA™/IC																
1st quartile	12.6	4.4	2.6	49.4	(1.5)	(8.3)	10.4	18.8	2.4	12.3	35.6	12.8	(10.1)	10.5	(4.4)	
2nd quartile	11.6	9.3	(43.1)	11.2	(3.4)	1.6	7.8	(2.0)	(4.8)	1.1	(5.0)	18.5	(5.3)	10.5	(6.8)	
3rd quartile	2.0	1.6	(14.9)	(5.2)	(8.9)	1.8	(2.8)	1.7	2.3	(0.3)	(14.0)	1.7	(9.7)	4.8	(6.2)	
4th quartile	0.0	(2.7)	(2.2)	(2.1)	(3.7)	(0.7)	(4.6)	4.5	(0.2)	(3.2)	14.1	2.0	8.9	0.5	(9.3)	
Average	***6.2***	***3.3***	***(15.1)***	***16.3***	***(4.4)***	***(1.4)***	***1.9***	***6.5***	***(0.1)***	***2.5***	***9.6***	***8.5***	***(4.2)***	***5.5***	***(4.9)***	
1st-avg	*6.4*	*1.1*	*17.7*	*33.1*	*2.9*	*(6.9)*	*8.5*	*12.3*	*2.5*	*9.8*	*26.0*	*4.3*	*(5.9)*	*5.0*	*0.5*	*7.8*
4th-avg	*(6.2)*	*(6.0)*	*12.9*	*(18.4)*	*0.7*	*0.7*	*(6.5)*	*(2.0)*	*(0.1)*	*(5.7)*	*4.5*	*(6.5)*	*13.1*	*(5.0)*	*(4.4)*	*(1.9)*
PB (x)																
1st quartile	5.7	4.8	2.8	4.0	2.4	1.3	4.6	4.1	5.5	7.2	3.3	2.2	1.5	2.5	3.0	
2nd quartile	2.1	2.9	2.4	2.0	1.3	1.3	4.6	0.9	2.3	3.5	1.6	5.3	1.9	2.8	2.2	
3rd quartile	1.6	2.2	3.1	2.1	1.4	1.8	2.2	1.9	2.5	2.2	0.9	5.1	1.9	2.1	1.6	
4th quartile	2.9	0.6	1.3	0.0	1.0	0.4	2.6	1.4	2.0	1.5	1.4	1.9	4.4	1.2	0.8	
Average	***3.1***	***2.7***	***2.5***	***2.0***	***1.5***	***1.2***	***3.4***	***2.0***	***3.1***	***3.6***	***1.9***	***3.6***	***2.2***	***2.0***	***2.0***	
1st-avg (%)	*83.9*	*77.8*	*12.0*	*100.0*	*60.0*	*9.3*	*35.3*	*105.0*	*77.4*	*100.0*	*73.7*	*(38.9)*	*(31.8)*	*25.0*	*50.0*	*54.0*
4th-avg (%)	*(6.5)*	*(77.8)*	*(48.0)*	*(100.0)*	*(33.3)*	*(66.1)*	*(23.5)*	*(30.0)*	*(35.5)*	*(58.3)*	*(26.3)*	*(47.2)*	*100.0*	*(40.0)*	*(60.0)*	*(43.1)*

Continued next page

Figure 17

Financial, valuation and share-price performance of GEMs ranked by CG quartiles (Continued)

	Mal	Sing	Thai	Indo	Phil	Korea	Taiwan	China	Hong Kong	India	Pak	South Africa	Turkey	Emerging Europe	LatAm	Avg
PE (x)																
1st quartile	13.9	14.2	15.5	10.8	38.2	8.2	12.9	19.4	15.6	17.9	8.7	11.0	16.8	9.1	16.4	
2nd quartile	11.8	18.3	23.0	5.2	12.7	11.2	4.1	8.3	10.5	13.9	23.9	12.9	16.6	13.4	18.9	
3rd quartile	20.8	16.7	10.6	12.3	24.6	30.7	18.3	10.0	26.1	8.7	8.5	10.7	19.7	22.2	11.7	
4th quartile	14.1	14.7	258.9	(91.0)	19.5	3.2	24.5	22.4	21.0	9.3	7.2	11.8	7.0	10.5	44.8	
Average	***15.2***	***15.9***	***62.5***	***(19.7)***	***24.9***	***13.4***	***15.4***	***14.7***	***18.3***	***12.5***	***12.4***	***11.3***	***13.5***	***13.8***	***22.6***	
1st-avg (%)	*(8.6)*	*(10.7)*	*(75.2)*	*(154.8)*	*53.4*	*(38.5)*	*(16.2)*	*32.0*	*(14.8)*	*43.2*	*(29.8)*	*(2.7)*	*24.4*	*(34.1)*	*(27.4)*	*(17.3)*
4th-avg (%)	*(7.2)*	*(7.5)*	*314.2*	*361.9*	*(21.7)*	*(75.9)*	*59.1*	*52.4*	*14.8*	*(25.6)*	*(41.9)*	*4.4*	*(48.1)*	*(23.9)*	*98.2*	*(31.5)*
1-year share price performance (%)																
1st quartile	(9.4)	(8.9)	(16.3)	(35.0)	(22.4)	0.7	(31.4)	9.9	12.3	(27.7)	(33.7)	(25.4)	(57.0)	(30.5)	5.7	
2nd quartile	(18.6)	(16.0)	(8.2)	(52.1)	(45.9)	6.2	(38.5)	68.1	7.2	(3.4)	(43.1)	(20.9)	(49.4)	(32.9)	(29.2)	
3rd quartile	(27.7)	(18.5)	(53.7)	(65.9)	(44.4)	(22.4)	(36.4)	35.7	(14.5)	(22.9)	(26.7)	(12.9)	(50.4)	(20.6)	(11.8)	
4th quartile	(21.7)	(13.8)	4.7	(53.2)	(61.3)	(57.5)	(39.4)	102.3	(19.0)	(57.2)	(40.5)	(41.5)	(46.3)	(17.1)	(23.0)	
Average	***(19.0)***	***(14.4)***	***(17.7)***	***(50.7)***	***(43.5)***	***(18.3)***	***(36.6)***	***60.4***	***(3.5)***	***(27.8)***	***(36.9)***	***(25.2)***	***(41.5)***	***(17.9)***	***(6.8)***	
1st-avg	*9.6*	*5.5*	*1.4*	*15.7*	*21.1*	*19.0*	*5.2*	*(50.5)*	*15.8*	*0.1*	*3.2*	*(0.2)*	*(15.5)*	*(12.6)*	*12.5*	*2.0*
4th-avg	*(2.7)*	*0.6*	*22.4*	*(2.5)*	*(17.8)*	*(39.3)*	*(2.8)*	*41.9*	*(15.5)*	*(29.4)*	*(3.6)*	*(16.3)*	*(4.8)*	*0.8*	*(16.2)*	*(5.7)*
3-year share price performance (%)																
1st quartile	44.2	90.7	28.9	(46.7)	57.9	120.3	42.5	263.9	149.2	197.1	(42.5)	5.1	(17.7)	(8.6)	212.1	
2nd quartile	27.1	56.9	(64.0)	(77.5)	(49.6)	93.4	15.0	(12.5)	41.2	7.9	(43.2)	15.7	12.2	95.2	23.2	
3rd quartile	(31.3)	97.2	(43.3)	(91.6)	(28.7)	(6.5)	(8.8)	37.6	27.0	62.5	(58.4)	81.6	1.7	116.1	28.4	
4th quartile	(29.4)	(5.6)	(49.4)	(81.6)	(41.2)	13.5	(13.7)	46.5	83.9	183.1	(32.2)	(42.5)	24.2	(2.8)	9.3	
Average	***5.6***	***58.7***	***(30.4)***	***(71.5)***	***(15.4)***	***55.2***	***4.3***	***107.5***	***72.0***	***112.6***	***(42.8)***	***15.1***	***3.7***	***15.6***	***72.4***	
1st-avg	*38.6*	*32.0*	*59.3*	*24.8*	*73.3*	*65.1*	*38.2*	*156.4*	*77.2*	*84.5*	*0.3*	*(10.0)*	*(21.4)*	*(24.2)*	*139.7*	*48.9*
4th-avg	*(35.0)*	*(64.3)*	*(19.0)*	*(10.1)*	*(25.8)*	*(41.7)*	*(18.0)*	*(61.0)*	*11.9*	*70.5*	*10.6*	*(57.6)*	*20.5*	*(18.4)*	*(63.2)*	*(20.0)*
5-year share price performance (%)																
1st quartile	(23.5)	48.3	(8.4)	(36.4)	(41.7)	65.6	183.5	1344.1	224.9	817.8	(27.8)	(15.0)	155.2	0.0	327.9	
2nd quartile	(29.8)	171.2	(69.4)	(55.0)	(66.5)	36.0	153.0	n/a	48.3	45.2	(58.5)	0.3	281.2	255.8	125.9	
3rd quartile	(56.4)	71.9	(1.2)	(78.0)	(58.8)	(25.1)	127.3	(15.0)	1.1	220.8	(63.2)	70.7	435.8	277.1	81.8	
4th quartile	(46.9)	(28.2)	(81.9)	(84.5)	(82.8)	19.0	133.8	261.5	213.3	239.4	(63.3)	10.0	433.2	73.5	100.0	
Average	***(40.1)***	***62.7***	***(41.9)***	***(61.4)***	***(61.4)***	***23.9***	***129.7***	***685.9***	***114.7***	***330.8***	***(52.3)***	***16.7***	***256.0***	***94.3***	***161.3***	
1st-avg	*16.6*	*(14.4)*	*33.5*	*25.0*	*19.7*	*41.7*	*53.8*	*658.2*	*110.2*	*487.0*	*24.5*	*(31.7)*	*(100.8)*	*(94.3)*	*166.6*	*93.0*
4th-avg	*(6.8)*	*(90.9)*	*(40.0)*	*(23.1)*	*(21.4)*	*(4.9)*	*4.1*	*(424.4)*	*98.6*	*(91.4)*	*(11.0)*	*(6.7)*	*177.2*	*(20.8)*	*(61.3)*	*(34.8)*

Source: CLSA Emerging Markets

CG correlation in GEM sectors

We examined eight of the bigger GEM sectors

An analysis of the correlation between CG and financial performance by sector reinforces the conclusions of country comparisons. Stocks in our emerging market universe encompass 18 sectors. We focus on the eight sectors that have at least 20 stocks (analysis of CG against financials, valuations and share-price performances becomes less meaningful in sectors with less than 20 stocks). These sectors are banks, technology, telcos, power, consumer, conglomerates, petrochemicals and property. The striking results within GEM sectors are:

Tight relationship across sectors between CG and ROE . . .

1. In all but one of the eight main GEM sectors, companies in the top CG quartile for the respective sectors had ROEs higher than the sector average; companies in the bottom CG quartile had ROEs below the sector average. Similarly strong results were obtained in comparing EVA/IC across the CG quartiles of each sector.

. . . as well as with PB valuations

2. In six of the eight sectors, companies in the top CG quartile trade at a PB premium averaging 38.6%. In seven of the eight sectors, companies in the lowest CG quartile trade at a PB discount to the sample average. There was no firm correlation with PEs.

. . . and one-, three- and five-year share-price performance

3. For all eight sectors, shares of companies in the top CG quartile for the respective sectors have outperformed the sector average over the past three years. In all but two sectors, the shares of companies in the bottom quartile have underperformed. A strong correlation also holds for share-price performance of the stocks sorted by CG quartiles for one and five years.

. . . and between CG and business conditions

4. The sector analysis indicates that sectors that have been performing well (as reflected by ROE and three-year share-price performance) tend to have higher CG scores. Conversely, sectors that are facing more challenging environments have lower CG scores.

CG and financial performance ratios within GEM sectors

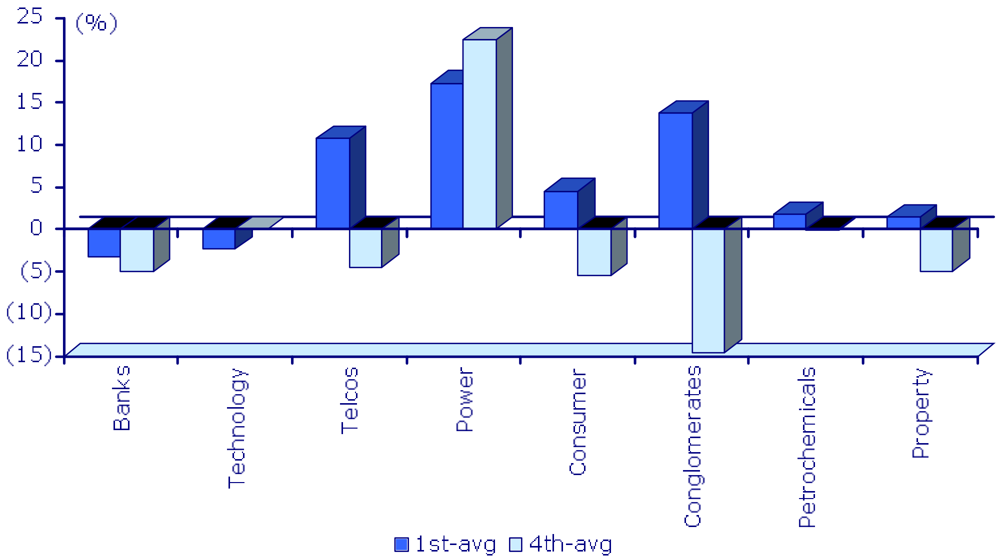
In all but one sector, top quartile CG companies had higher ROEs, bottom quartile CG companies had lower ROEs

In all sectors but one (telcos), companies in the first CG quartile had average ROEs exceeding that of the sector average. Conglomerates, consumer companies and banks & financial institutions stood out here, with the average ROE of companies in the top CG quartile 10-14ppts higher than the sector average. Companies in the bottom quartile on average had lower ROEs than the sector averages across all sectors apart from banks.

High ROE for top CG companies among conglomerates, consumer and banks

Figure 18

Top and bottom CG quartiles to sector average ROE



Source: CLSA Emerging Markets

Five of the eight sectors had companies in the top quartile with higher ROCE; all sectors but banks, companies with low CG had lower ROCE

Comparisons between ROCE and CG revealed more mixed results. Even so, in five of the eight sectors (except telcos, petrochemicals and power), the average ROCE of companies in the top quartile for CG exceeded the sector average by 3-31ppts. Once again, conglomerates and consumer companies in the first CG quartile stood out, with their ROCE averages 31ppts and 20ppts respectively higher than their sector averages. In all sectors except banks, companies in the bottom quartile for CG had average ROCE ratios 0.1-15ppts lower than their respective sector averages.

Strong relationship between CG and EVATM, which mirrors that with ROE

The relationship between CG and EVA™/IC mirrors the correlation between CG and ROE. With the exception of telcos across all other GEM sectors, the companies in the first CG quartile had higher EVA™/IC ratios. On average, EVA™/IC ratios for the top quartile were 0.7-11ppts higher than their sector averages. In the bottom CG quartile for six of the eight GEM sectors, EVA™/IC ratios were 0.2-8ppts lower than their respective sector averages. The exception was petrochemicals and, very marginally, power companies. Results for conglomerates are most striking: conglomerates in the top CG quartile had average EVA™/IC ratios exceeding the sector average by 11ppts - the largest premium across our sample.

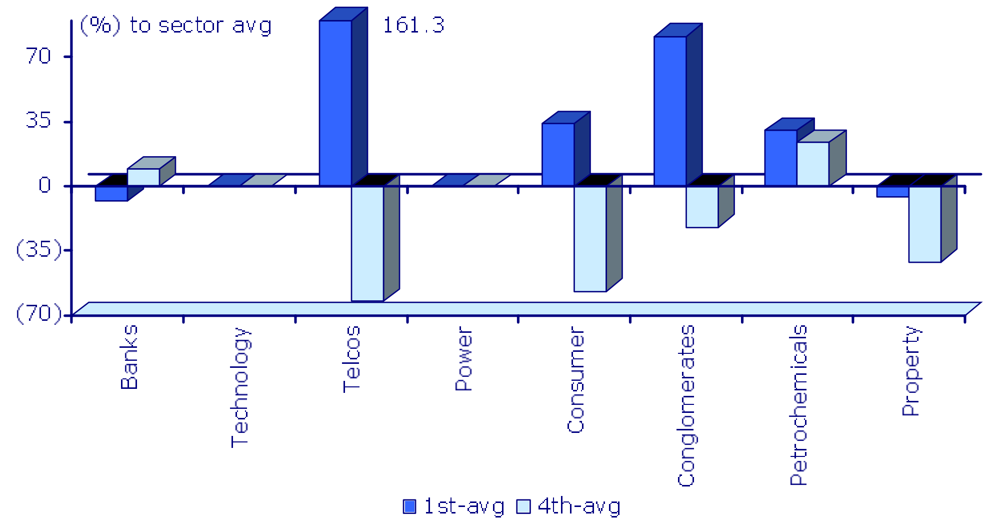
GEM sector CG and valuation correlation

In six of eight sectors, top CG companies trade at a PB premium within their sectors; seven of eight had companies with low CG at PB discounts

High CG companies trade at a PB premium, with the companies in the top CG quartile in all but two of our eight sectors trading at a 16-81% premium to their respective sector average PB. The exceptions – telcos and property – had companies in the top CG quartile that are at a marginal discount to their sector averages. In every sector except petrochemicals, companies in the bottom CG quartile trade at a discount of 5-59% to the sector average. However, the PB premium appears to correspond with those sectors with the highest ROE. To the extent that high CG companies are value creators, they are also accorded a higher PB multiple.

Figure 19

Top and bottom CG quartiles to sector average PB



Source: CLSA Emerging Markets

No strong relationship between PE and CG across sectors

A comparison of average PEs and their relation with CG did not yield any firm conclusions. High CG companies did not appear to trade at a PE premium to their regional peers within GEM sectors. To the contrary, in five of the eight sectors companies in the top quartile for CG traded at a PE discount to their sector average. Only for technology, property and banks was there a positive correlation with PE valuations of top CG companies. Companies with low CG scores also did not trade at a significant discount in our sample; in just three of the eight sectors (technology, consumer and conglomerates) were companies in the lowest CG quartile at a discount to the average PEs of their respective sectors.

CG and share-price performance of GEM sectors

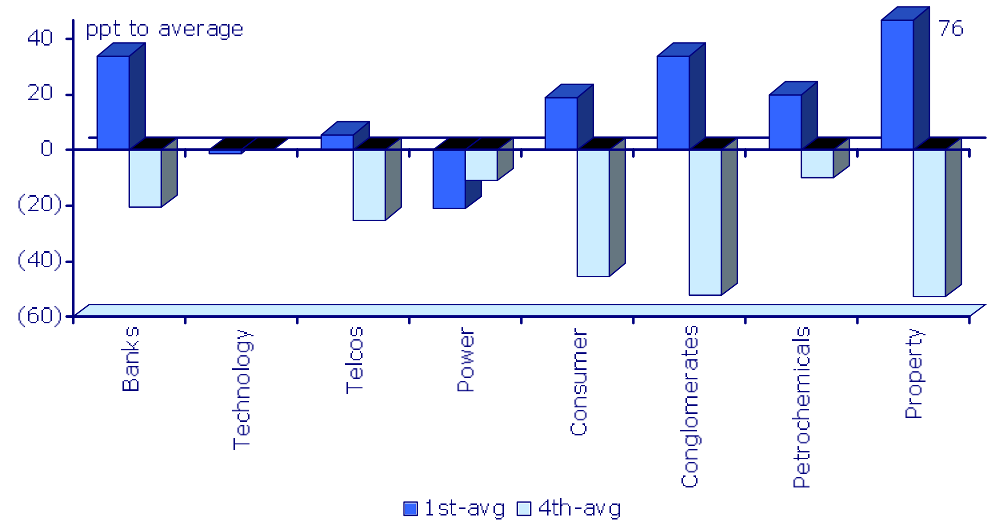
Over the past three years, top CG companies have outperformed their sectors in all main sectors and in all but two of the sector low CG companies have underperformed

For 2000, the top quartile CG companies have had share-price returns exceeding their respective sector averages in all the main sectors except power, by 2-34ppts. The association between high CG companies and share-price outperformance is more striking over a three-year period, where companies in the top CG quartile across all sectors have outperformed the averages for their sectors. In all but two sectors (technology and power), companies in the bottom CG quartile have underperformed their sector averages by 8-53ppts in the past three years. The correlation between high CG companies and share-price outperformance over the past five years is also strong, with companies in the top quartile of each sector beating the average share-price returns of the respective sectors by 6-918ppts, except for telcos. Companies in the bottom CG quartile were significant five-year underperformers in four sectors (technology, consumer, property and conglomerates) while in the other sectors, low CG companies beat the sector average by 6-82ppts.

Strongest outperformance of top CG companies among banks, conglomerates, technology and property

Figure 20

Three-year share-price performance of top quartile CG companies, by sector



Source: CLSA Emerging Markets

Figure 21

Financial and valuation ratios and share-price performance of GEM sectors against companies sorted by CG quartiles

	Banks	Technology	Telcos	Power	Consumer	Conglomerates	Petrochemicals	Property
ROCE analysis								
1st quartile	2.4	35.2	5.9	14.6	62.3	49.8	25.4	12.4
2nd quartile	(4.7)	34.1	16.7	19.7	53.5	11.1	14.9	9.5
3rd quartile	(45.0)	22.9	17.8	15.6	19.8	8.2	50.7	11.2
4th quartile	2.0	19.2	7.4	11.4	34.3	7.2	23.6	4.0
Average	**(11.4)**	**27.8**	**11.8**	**15.5**	**42.2**	**19.1**	**28.7**	**9.3**
1st-avg	13.8	7.4	(5.9)	(0.9)	20.1	30.8	(3.2)	3.1
4th-avg	13.4	(8.6)	(4.5)	(4.0)	(8.0)	(11.9)	(5.0)	(5.3)
ROE analysis								
1st quartile	18.1	28.4	5.5	12.7	35.5	22.5	24.2	9.4
2nd quartile	5.8	26.5	21.0	17.5	25.7	9.4	17.3	7.8
3rd quartile	(2.0)	24.8	8.5	12.1	15.3	8.8	25.9	11.6
4th quartile	10.5	15.1	1.2	5.1	21.8	(5.9)	22.3	3.0
Average	**8.1**	**23.7**	**8.8**	**12.0**	**24.4**	**8.7**	**22.5**	**8.0**
1st-avg	10.0	4.6	(3.4)	0.7	11.1	13.8	1.8	1.5
4th-avg	2.4	(8.6)	(7.7)	(7.0)	(2.6)	(14.6)	(0.1)	(4.9)
EVA™/IC								
1st quartile	7.0	10.2	(6.1)	1.3	13.0	10.1	5.3	1.3
2nd quartile	(2.7)	11.6	3.6	(0.3)	19.4	(2.9)	(1.2)	(3.2)
3rd quartile	(13.0)	3.0	0.3	(5.8)	2.4	(4.7)	7.3	(2.3)
4th quartile	(4.6)	(2.6)	(2.1)	(1.6)	11.3	(5.1)	6.4	(8.7)
Average	**(3.3)**	**5.5**	**(1.2)**	**(1.7)**	**11.5**	**(0.6)**	**4.6**	**(3.2)**
1st-avg	10.3	4.6	(4.9)	3.0	1.5	10.8	0.7	4.5
4th-avg	(1.3)	(8.1)	(0.9)	0.1	(0.2)	(4.5)	1.8	(5.5)

Countinued next page

Figure 21

Financial and valuation ratios and share-price performance of GEM sectors against companies sorted by CG quartiles (continued)

	Banks	Technology	Telcos	Power	Consumer	Conglomerates	Petrochemicals	Property
PB								
1st quartile	3.0	7.1	2.7	1.7	7.4	3.1	3.2	1.2
2nd quartile	1.8	4.7	3.8	1.8	5.6	1.2	1.7	2.4
3rd quartile	1.5	2.7	2.2	1.1	3.8	1.2	1.8	0.8
4th quartile	1.3	1.7	2.4	1.4	2.4	1.3	3.0	0.8
Average	**1.9**	**4.0**	**2.8**	**1.5**	**4.8**	**1.7**	**2.4**	**1.3**
1st-avg (%)	56.2	76.4	(2.0)	16.4	55.2	81.4	30.5	(5.3)
4th-avg (%)	(30.4)	(58.5)	(12.8)	(5.1)	(50.7)	(22.1)	24.1	(40.9)
PE								
1st quartile	12.3	21.6	19.8	9.7	19.3	13.6	10.8	17.7
2nd quartile	9.7	6.7	17.2	8.4	17.1	20.8	11.3	18.2
3rd quartile	11.9	14.4	55.4	8.1	17.5	13.7	12.2	11.7
4th quartile	15.2	12.6	26.5	118.4	11.2	10.6	12.9	18.1
Average	**12.3**	**13.8**	**29.5**	**32.0**	**16.3**	**14.7**	**11.8**	**16.4**
1st-avg (%)	0.2	56.2	(32.8)	(69.6)	18.4	(7.3)	(8.3)	7.7
4th-avg (%)	24.2	(8.8)	(10.3)	270.3	(31.6)	(27.8)	9.4	10.3
1-year share-price performance								
1st quartile	(8.1)	(43.8)	(32.4)	5.3	18.9	(15.3)	13.6	(5.1)
2nd quartile	(16.4)	(37.6)	(25.4)	1.2	(7.2)	(5.2)	(22.4)	(6.9)
3rd quartile	(9.8)	(49.3)	(36.2)	32.9	(7.6)	(13.3)	(31.7)	(18.8)
4th quartile	(33.6)	(54.2)	(42.1)	76.7	(43.8)	(48.5)	(41.0)	(37.1)
Average	**(17.0)**	**(46.4)**	**(34.2)**	**27.3**	**(10.4)**	**(20.6)**	**(20.4)**	**(17.0)**
1st-avg (%)	8.9	2.6	1.8	(22.0)	29.3	5.3	34.0	11.9
4th-avg (%)	(16.6)	(7.8)	(7.9)	49.4	(33.4)	(27.9)	(20.6)	(20.2)
3-year share-price performance								
1st quartile	47.2	282.3	63.8	(17.8)	55.3	32.7	9.0	107.5
2nd quartile	(4.1)	110.8	34.4	(27.4)	46.9	1.3	(20.9)	22.2
3rd quartile	14.0	86.7	38.3	(32.6)	13.8	18.6	(11.2)	14.8
4th quartile	(25.6)	179.2	14.0	2.8	26.3	(53.7)	(21.1)	(21.3)
Average	**8.3**	**171.7**	**34.9**	**(19.5)**	**34.5**	**(1.4)**	**(11.0)**	**31.5**
1st-avg (%)	38.9	110.6	28.9	1.7	20.8	34.1	20.1	76.0
4th-avg (%)	(33.9)	7.5	(20.9)	22.3	(8.2)	(52.4)	(10.1)	(52.8)
5-year share-price performance								
1st quartile	69.3	1644.5	(22.2)	8.5	118.1	4.1	56.5	(10.3)
2nd quartile	8.0	295.1	51.1	(18.2)	79.8	(21.7)	2.7	(26.8)
3rd quartile	46.1	434.6	(0.8)	(13.3)	70.3	32.9	72.2	(1.1)
4th quartile	72.6	370.4	126.7	15.5	64.0	(26.8)	52.1	(74.7)
Average	**48.2**	**726.6**	**44.9**	**(1.6)**	**82.2**	**(1.7)**	**45.9**	**(29.4)**
1st-avg (%)	21.2	917.9	(67.1)	10.2	35.9	5.7	10.6	19.1
4th-avg (%)	24.4	(356.2)	81.8	17.2	(18.2)	(25.1)	6.2	(45.3)

Source: CLSA Emerging Markets

Sectors doing well will see companies that are more open and generally have better CG

Sectors with good businesses have high CG

A relationship emerges of sectors that are doing well and high average CG scores. Of the total 18 sectors for all the companies covered across emerging markets, the average ROEs of the sectors in the top CG quartile exceeded those of sectors in the bottom quartile by 10ppts. The share-price performances for particularly the past three and five years also show a strong link with the sector average CG scores. The sectors that come out with the highest average CG scores have significantly outperformed sectors with the lowest CG scores over particularly the past three and five years. This supports the proposition that sectors that are doing well, as reflected by higher ROEs and share-price outperformance, would have less to hide, can devote resources to improving CG and most importantly will already be enjoying investor interest. The major shareholders and managers would be in a better position to realise that higher CG is what investors are presently demanding, which they would be able to provide and generate greater investor interest and thus further outperformance for the stocks.

Higher ROCE, ROE, PB and three-year share-price performance for sectors with highest CG scores and lower for sectors with low CG

Figure 22

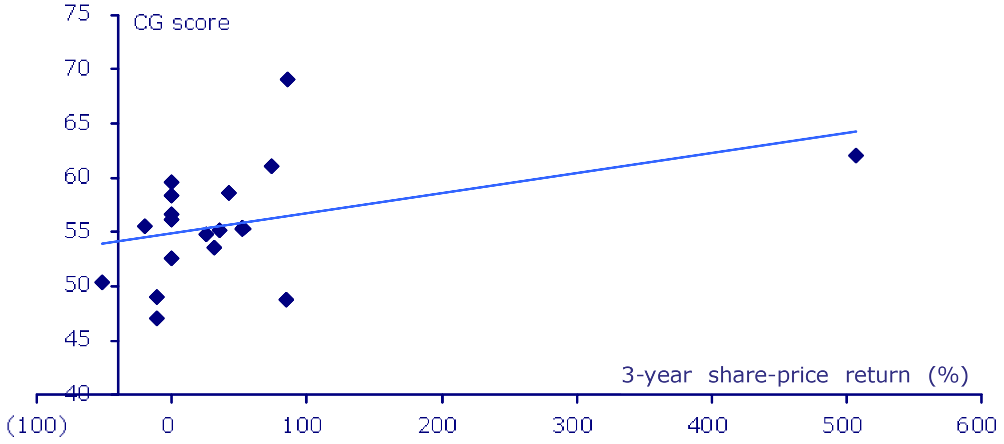
Sectors by weighted average CG scores

Sector	Avg CG score (%)	PB (x)	ROCE (%)	ROE (%)	Share-price performance (%)	
					3 years	5 years
Transport	69.0	5.0	12.7	19.7	86.0	39.1
Manufacturing	62.1	6.3	61.5	44.0	506.2	587.6
Metal & mining	61.1	3.3	19.6	13.5	73.9	(5.3)
Consumer	59.6	4.8	42.2	24.4	34.5	82.2
Airlines	58.6	1.6	8.9	6.1	42.2	3.8
Banks	58.4	1.9	(11.4)	4.7	8.3	48.2
Tech	56.6	4.0	27.8	17.2	171.7	726.6
Conglos	56.2	1.7	19.1	16.7	(1.4)	(1.7)
Autos	55.5	1.4	28.2	15.1	(20.4)	0.1
Media	55.4	3.3	23.5	13.5	52.5	59.5
Telcos	55.2	2.8	11.8	8.8	34.9	44.9
Materials & cement	54.8	0.6	12.1	(8.9)	25.7	55.0
Property	53.5	1.3	9.3	8.0	31.5	(29.4)
Power	52.5	1.5	15.5	9.9	(19.5)	(1.6)
Hotels & leisure	50.4	1.8	16.9	9.5	(51.9)	(65.7)
Infrastructure	49.1	1.0	9.8	9.6	(11.2)	(57.1)
Pharmaceuticals	48.7	4.2	22.3	18.3	84.4	150.7
Petrochemicals	47.1	2.4	28.7	22.5	(11.0)	45.9

Source: CLSA Emerging Markets

Figure 23

Average sector CG to sector three-year share-price performance



Source: CLSA Emerging Markets

Significantly higher ROE and ROCE for the top CG sectors relative to lower ones

Sectors with the highest average CG scores are transport (ex-airlines), manufacturing, metals & mining and consumer. The average CG scores were 60% and higher. The sectors that had the lowest CG scores, averaging barely 50% or lower, are petrochemicals, pharmaceuticals, infrastructure and hotels & leisure. The difference between the top four CG sectors and the bottom four is striking, particularly in their ROE and ROCE figures as well as their three- and five-year share-price performance. The four top CG sectors had an average ROE of 25.4% and an average ROCE of 34% – significantly higher than the averages for the bottom four CG sectors, with ROEs that averaged 14.9% and ROCEs averaging 19.4%.

Top four CG sectors had average 175% return; bottom four average return was just 3% for the past three years

The top four CG sectors averaged 175% US$ total returns for the past three years (similar to their average total return for the past five years). This is significantly above the average total returns for the bottom four CG sectors, which averaged total US$ returns of just 3% over the past three years (19% over the past five years).

Causation not likely from CG to sector ROE, but the other way around

It is much more likely that the sectors that are doing well (as reflected by higher average financial performance ratios and share-price performances) have the incentive and resources that can be channelled to improving CG. There is no reason why high CG scores in itself would cause better financial performance ratios (higher ROEs or ROCEs), and it appears unlikely that the average CG of the sectors would in itself be a factor that determines which sectors have shares that outperform.

Country rankings: Spreading the word

CLSA research heads rated their markets for macro determinants

A joint effort was undertaken by CLSA research heads in each country to rank the 25 emerging markets under our coverage for how conducive their macro environments are to good CG. Each market was rated from 1 to 10 for five key macro factors and a weighted average score was calculated. The markets were then ranked according to their overall score.

Macro factors are different from CG aspects at the micro level

The macro factors determining the CG environment should be distinguished from the characteristics (identified in the section above) that constitute good governance in the companies. The macro factors are part of the determinants of the CG characteristics exemplified by companies. We weighted each of the macro criteria according to our view of the importance of each criterion.

Weighting given to five of the key macro determinants between 10-30%

Figure 24

Macro factors and weightings accorded by CLSA in country rankings

	Weight (%)
Clear, transparent and comprehensive rules and regulations	10
Committed and effective enforcement of rules and regulations	30
Political and regulatory environment affecting CG and ability of corporates to maximise value without arbitrary restrictions	20
Adoption International Generally Accepted Accounting Principles	20
Institutional mechanisms to promote awareness and a culture of good governance	20

Source: CLSA Emerging Markets

"Obeying a rule is a practice" – Wittgenstein

Enforcement of rules and regulations has to be given the highest weight since it is clearly the most important macro determinant of the level of CG in a market. Without effective enforcement, corporates can and will get away with scandalous behaviour. Hence, it is given 1.5x the standard weight. The existence of satisfactory rules and regulations in itself (without strong enforcement) is less important and hence is given half of the weight of the other macro factors.

20% equal weight for most of the categories other than enforcement (30%) and rules (10%)

The other three criteria of the macro determinants of CG are given equal weight. We have included in this survey a macro factor that was not included in our previous rankings of markets in the *Who's Swimming Naked?* report last year, ie, how the political and regulatory environment impacts CG standards and the ability of companies in the market to maximise value for shareholders without arbitrary regulations being imposed and/or new ad hoc policies being introduced. We rate this equally in weight as the adoption of IGAAP as well as institutional mechanisms and a culture supportive of good governance.

Two of the earlier criteria dropped: communication standards and existence of debt market for corporates

We have dropped two criteria that we used previously which are seen as awkward tools in distinguishing markets and are less important on determining the CG environment. One was 'facilities for effective and rapid communications'. The other is 'existence of debt markets to avoid excessive use of banks' – the absence of which is a problem across most emerging markets.

Singapore is the highest scorer, followed by Hong Kong, South Africa, Chile and Mexico

By the criteria we use, the rankings of markets for the macro determinants of CG is not substantially different from the one we obtained in our earlier report. Singapore still emerges at the top and is the only country to score above 7 overall. Hong Kong, Chile, Mexico and South Africa score reasonably well at 6-7. The scores then fall to 5 and below.

Russia and Czech Republic at the bottom, followed by Pakistan, Indonesia and the Philippines

The lowest ranking countries in our survey are Russia and the Czech Republic where rules and regulations still need much more substance and enforcement. The other markets score just above these two, but quite a few are rated 3-4 where there is little to differentiate the overall environments. All score quite poorly on enforcement, but Malaysia and Thailand rank slightly higher than Turkey, China, Philippines, Indonesia and Pakistan for having more comprehensive rules in place.

China, Turkey, Malaysia, Thailand and Korea score below 4 and are noticeably below India, Taiwan, Argentina and Brazil

Figure 25

Country macro rankings

	Rules and regulations	Enforcement & regulation	Political/ regulatory environment	Adoption of IGAAP	Institutional mechanisms & CG culture	Weighted score
Weight (%)	**10**	**30**	**20**	**20**	**20**	**100**
Singapore	9	7	6	9	7	7.4
HK	8	6	6	9	6	6.8
Chile	8	6	6	7	6	6.4
Mexico	6	5	6	8	6	6.1
South Africa	7	4	5	8	5	5.5
India	7	5	5	5	6	5.4
Peru	7	5	5	7	4	5.4
Taiwan	7	4	4	7	6	5.3
Argentina	7	5	5	6	4	5.2
Venezuela	6	4	5	7	3	4.8
Colombia	6	4	5	7	3	4.8
Brazil	6	3	4	7	5	4.7
Greece	7	4	5	5	3	4.5
Turkey	8	4	5	2	5	4.4
Hungary	6	4	5	4	3	4.2
Korea	5	3	3	6	3	3.8
Thailand	7	2	3	5	4	3.7
Malaysia	8	2	2	5	5	3.7
China	4	2	4	5	3	3.4
Philippines	5	2	2	5	4	3.3
Poland	4	3	4	4	2	3.3
Indonesia	4	2	5	4	2	3.2
Pakistan	3	2	4	5	2	3.1
Czech Republic	4	2	3	4	2	2.8
Russia	3	2	2	3	1	2.1

Source: CLSA Emerging Markets

South Africa stands high, with LatAm highest ranked region for CG

From the rankings of each market, we derived an average score for each region according to the countries scores in each region on macro factors. Among the regions, we find LatAm overall scoring ahead of Asia, which in turn ranks higher than Eastern Europe. South Africa, the only market covered in Africa, ranks higher than the other regions partly as its market is dominated (in terms of stocks with institutional investor interest) by MNCs. Many have dual listings in London and have established levels of CG close to the developed world. Similarly, LatAm markets have a more conducive environment relative to Asia, as many LatAm countries have dual listings in New York. This means higher disclosure and accounting standards, while most the larger companies in these markets have managers trained in business schools in the US and thus absorb the professional standards of the developed world. In this region, we rate Chile, Mexico and Argentina as having more positive overall determinants than its neighbours.

Asia rates above Eastern Europe, but below LatAm

Figure 26

Regions ranked by macro determinants of CG

	Rules and regulations	Enforcement & regulation	Political/ regulatory environment	Adoption of IGAAP	Institutional mechanisms & CG culture	Weighted score
Weight (%)	**10**	**30**	**20**	**20**	**20**	**100**
South Africa	7.0	4.0	5.0	8.0	5.0	5.5
Latam	6.6	4.6	5.1	7.0	4.4	5.3
Asia	6.1	3.3	4.0	5.9	4.4	4.5
Eastern Europe	3.9	3.1	3.8	3.8	2.3	3.3

Source: CLSA Emerging Markets

Asian markets often dragged down by absence of institutional support and appropriate culture, rules and enforcement that need to be improved

The two regions we rank the lowest for macro factors are Eastern Europe and Asia. Eastern Europe markets are generally new with practically no time for a culture and tradition of respecting CG to be established. Institutions for fostering CG and enforcement of regulations are poorer than in the other regions. Asia, on average, scores higher than Eastern Europe, but below South Africa and LatAm. However, some of the markets in Asia have much better environments, for instance Singapore and Hong Kong, which come right at the top of the emerging world. The average scores for Asia are dragged by countries at the lower end (Figure 25 on Page 37), where institutional mechanisms (professional bodies, establishing best practice standards) to promote good governance are lacking or where rules and regulations still need improvement and where the key element of enforcement is often lacking.

A number of markets have seen indices fall more than 50% over the past three and five years

Markets being punished for low CG

On a relatively short snap-shot of one-year performance there appears to be little systematic relation between the markets ranked for CG and their index performances. However, over the past three years, a relationship emerges that shows better markets doing slightly better than the other emerging markets, with markets with poor CG clearly being punished. A number of markets in the lower half of our CG rankings have seen index performances falling more than 50% to end-2000 either over the past three or five years – ie, Korea, Thailand, Malaysia, China, the Philippines, Indonesia, Pakistan and Russia. However, overall correlations between CG and the market is not perfect, largely owing to the necessarily small sample – 25 emerging markets ranked.

Past three years, average of markets fell 16%, bottom five markets fell 29.7%

Figure 27

MSCI country index performance (US$) to end-2000

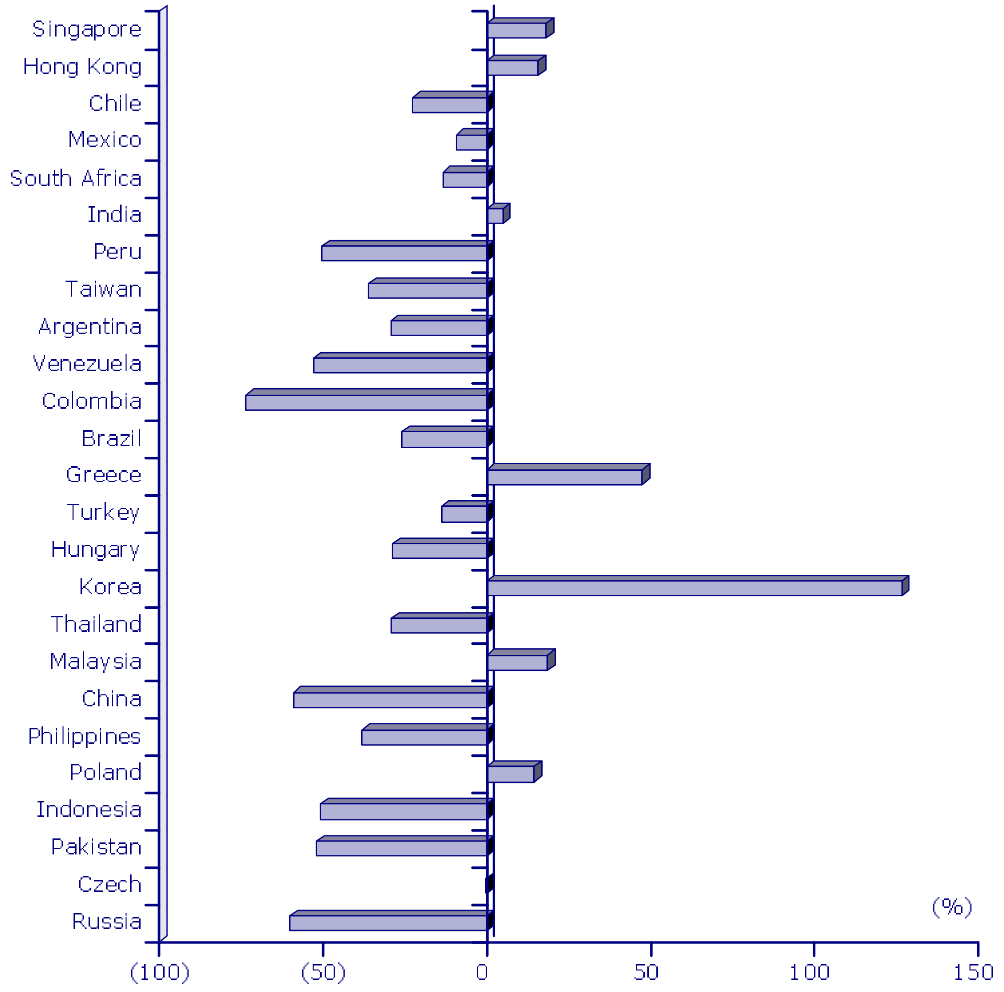
	1 year	3 year	5 year
Singapore	(29.8)	18.1	(25.1)
Hong Kong	(19.2)	15.6	10.6
Chile	(18.4)	(22.8)	(35.3)
Mexico	(22.5)	(9.4)	55.7
South Africa	(19.6)	(13.5)	(38.2)
India	(26.3)	4.9	10.6
Peru	(26.2)	(50.3)	(43.0)
Taiwan	(46.3)	(36.1)	(17.3)
Argentina	(25.2)	(29.3)	0.1
Venezuela	(2.2)	(53.0)	36.6
Colombia	(40.1)	(73.5)	(60.5)
Brazil	(18.0)	(25.9)	24.4
Greece	(43.0)	47.3	102.8
Turkey	(46.2)	(13.9)	144.9
Hungary	(29.6)	(28.8)	61.0
Korea	(49.8)	126.6	(54.3)
Thailand	(56.6)	(29.2)	(88.7)
Malaysia	(17.3)	18.5	(53.7)
China	(33.5)	(59.1)	(59.4)
Philippines	(46.3)	(38.2)	(73.3)
Poland	(4.6)	14.5	35.1
Indonesia	(62.2)	(50.9)	(84.3)
Pakistan	(14.4)	(52.0)	(51.9)
Czech	(3.5)	(0.3)	(24.1)
Russia	(17.3)	(60.1)	114.8

Source: Bloomberg, CLSA Emerging Markets

No systematic correlation for top half CG markets

Figure 28

Three-year market returns for markets ranked by CG



Source: Bloomberg, CLSA Emerging Markets

International investors are ignoring lower CG ranking markets

Figure 28 shows that the bottom markets for CG have clearly outperformed over the past three years. The average return for all of these 25 markets (using MSCI's country baskets) has been -16%, the bottom five markets have provided returns averaging -29.7%, while top countries have provided an average return, which although still negative, was just -2.4%.

Over five years, relationship of CG against market performance is not strong

Market CG rankings and their five-year index performances is not strong, reflecting the increasing importance of CG criteria in determining which stocks and markets to invest in since the financial crisis of 1997. Prior to that, company CG standards were not a high priority of market participants. However, the bitter fruit of poor CG was readily available to taste as the crisis blew the lid off companies with poor CG, forcing a greater emphasis on the issue.

Stocks that make or break the CG reputation of a market

Sample-bias problem in averaging up company scores for country CG rankings

Although a summary of CG rankings by country is presented in Appendix 2, we do not use this as a means of ranking markets. The main reason is sample bias: quite clearly the total list of stocks we cover across the markets would have a bias towards those with institutional interest - ie, those where CG standards should on average be higher than companies no longer covered by institutions and major securities houses. However, we believe a pointer to which markets might be considered good or poor for CG can be gleaned from how many companies in particular markets come into the top or bottom rankings of our overall sample.

South Africa, Hong Kong and Singapore have most companies in top CG quartile across GEM

Figure 29

Analysis of top 100 GEM stocks for CG

	No. of companies in top 100	Total no. of companies rated	% in top 100
Brazil	9	30	30.0
Chile	4	16	25.0
China	3	25	12.0
Hong Kong	15	37	40.5
India	9	80	11.3
Malaysia	9	47	19.1
Mexico	3	8	37.5
Peru	1	1	100.0
Philippines	1	20	5.0
Singapore	14	44	31.8
South Africa	23	40	57.5
Taiwan	4	47	8.5
Thailand	5	20	25.0

Source: CLSA Emerging Markets

Low sample size, but Argentina, Mexico and Brazil also have companies ranking in the top 100

Of the whole list of 495 stocks scored those with the most in the top 100, were from South Africa with 23 companies, or 58% of the South African companies scores. Hong Kong and Singapore are close to each other with 15 and 14 respectively of their companies in the top 100 representing 40% of the 37 Hong Kong companies that were scored and 32% of the total Singaporean sample. The sample of companies from Mexico and Brazil is not large, but one-third to half of the companies from these markets also come up in the top 100 across all emerging markets.

None from Korea, Indonesia, Pakistan etc in top 100

Worth noting is that none of the companies from Korea, Indonesia, Pakistan, Turkey, Greece, Hungary, Poland, the Czech Republic, Russia or Colombia made it into the top one hundred.

Most Indonesian and Pakistan companies scored fell in the bottom quartile

Figure 30

Analysis of stocks in bottom 100 for CG across GEM

	No. of companies in bottom 100	Total no. of companies rated	% in bottom 100
China	6	25	24.0
Hong Kong	6	37	16.2
India	11	80	13.8
Indonesia	13	18	72.2
Korea	11	24	45.8
Malaysia	9	47	19.1
Pakistan	9	11	81.8
Philippines	11	20	55.0
Poland	2	2	100.0
Russia	1	1	100.0
Taiwan	7	47	14.9
Thailand	4	20	20.0
Turkey	10	17	58.8

Source: CLSA Emerging Markets

About half of the Philippine, Turkish and Korean companies scored and all from Poland and Russia also rank in the lowest 100

Conversely, a representation of countries that have many companies with poor CG standards is gleaned from observing those that fall into the bottom 100 of companies we scored. These were dominated by Indonesia, India, the Philippines, Korea and Turkey (10-13 companies each in the bottom 100 rankings) with Malaysia and Pakistan not fair behind (nine each). More than four-fifths of Pakistani companies scored fall into the bottom 100. Just short of three-quarters of the Indonesian companies and about half of those from Turkey, Korea and the Philippines also fall into this list. All companies from Poland and Russia also fall here – albeit from a small country sample.

Pakistan, Indonesia, Malaysia and the Philippines have most companies in bottom 25

Alternatively, to focus on the companies with the worst scorers for CG – ie, the bottom 25 ranked in our sample – we find six Pakistani companies in this bottom group, five from Indonesia and Malaysia and four from the Philippines. (See Figure 7 on page 14 for the 25 companies with the lowest CG rankings by our metric.)

CG developments in GEMs

Progress across Asia, but less urgency in EEMEA and LatAm

Across GEMs, a clear trend towards improving CG is underway. This is particularly so in Asia where the authorities have seen the consequences of poor CG clarified by the financial crisis that severely impacted the region. Various regulators have realised that higher CG standards are essential to attract the vital capital flow of foreign investors in most markets to recapitalise companies and groups needing fresh equity. Across almost all of the Asian markets, tighter rules and standards are being put into place with greater emphasis on enforcement of these rules. This becomes particularly noticeable in markets with a recent change in leadership, where new leaders are keen to expose any nefarious activities of their predecessors. Improvement is also seen in LatAm, but as in EEMEA, there is an obvious lack of urgency in strengthening regulations and enforcement.

Singapore and Hong Kong – Convincing enforcement and cultural background

Singapore's authorities threatening civil action on behalf of investors

Singapore appears to be the country making the most determined effort to further enhance CG standards – a necessity for the republic to remain a key investment city in Asia. A new Companies Law came into effect in November 2000 that crucially allows the MAS to act on behalf of investors and to take up civil actions, where a lower burden of proof is required compared to criminal actions, against corporate transgressors. A Securities and Futures Act is targeted to come into force by this September and will likely include a broadening of the definition of "insiders" to include all those in possession of what is deemed "inside information", irrespective of how it is obtained and their position in the company.

Singapore also shows real examples of enforcement

The key to establishing a market as one where CG standards are high is the example of enforcement, giving confidence to investors that no exceptions are being made. An example of enforcement in action is the fine imposed on UOB for inappropriate disclosure in an IPO it was underwriting last August, and five key staff members of the bank having to resign.

Singapore's larger corporates also setting an example of improving their CG

Larger corporates, setting a positive example in the republic, are absorbing good governance principles. As the DBS group has brought in a pool of international managerial talent to enhance its core domestic strengths, its standards of disclosure have also moved ahead of other banks with greater accessibility to top management for the investment community. DBS also exemplifies a more proactive attitude in restructuring operations and disposing of non-core assets to maximise value. SPH is another example: it had previously been accused of using cash from its operations to invest in sub-optimal assets; this reversed two years ago in a proposal to push cash up to shareholders via a reverse rights.

Quarterly reporting by 2002 for most Singaporean companies

By 2002, companies in Singapore will shift to quarterly reporting. Some will not, but those that do not meet up with the Best Practice Guidelines recently issued will find institutional interest in their stocks dwindle.

HKMA moving faster than the SFC

In **Hong Kong**, there is certainly awareness of the importance of CG. Selectively new rules are being put in place to improve standards, but as yet the crucial area of enforcement is one that investors still need to watch for. The Hong Kong Monetary Authority has moved ahead of the SFC by requiring higher standards on banks with regard to responsibilities of the board, legal obligations of directors, guidelines on internal and external auditors and with a strong emphasis on transparency and appropriate disclosure.

Launch of minority shareholder group to take legal action against worst offenders

In addition, the editor of Webb-site.com will launch a Hong Kong Association of Minority Shareholders to represent minority shareholders as a group and take some of the worst CG companies to court. The culture of family-controlled businesses in Hong Kong will resist any quick changes in the advancement of CG. But a more aware general public, improving standards in regional markets and the authorities' desire to consolidate Hong Kong's status as the regional financial centre will combine to foster gradual progress on this front.

Korea, Taiwan and China – Differing catalysts for CG progress

"We must firmly oppose insider trading and market manipulation and strengthen our laws and regulations"
-Zhou Xiaochuan, Chairman, China Securities Regulatory Commission.

New bill in Korea will require shareholders approval before entering transactions over 20% of revenues or assets

In **Korea**, CG is advancing painfully, but progress is being made on the regulatory front even if practices of the chaebols continue to disappoint investors. A bill is working its way through the National Assembly that will require a company to have approval from shareholders before entering into transactions that are greater than 20% of annual revenues or total assets. However, class action suits are still not allowed, which is a disappointment that appears to have been the result of lobbying by corporate leaders.

The large groups continue to disappoint investors

Large corporates continue to enter into transactions that raise questions. SK Telecom's outsourcing contract with a company owned by the president raises questions. The son of the chairman of Samsung Electronics getting convertible bonds at one-eighth of the market price, allegedly being funded for his e-business ventures by the group and then recently being appointed a director of the main listed company and selling these businesses to a related company at inflated prices was also controversial. These follow charges against the Daewoo group for allegedly falsifying their accounts and not complying with external audit procedures. Because of family control of the large chaebols, a convincing transformation of the attitude to CG is likely to require a generational shift in control.

New president will want to act against those favoured previously

In **Taiwan**, a new president who has broken the stranglehold on power that the KMT previously enjoyed is the catalyst for changes that should improve overall CG. Transgressors can be less sure that they will be protected. Chen Shui-bian is naturally pushing for stricter enforcement of the law and to break up the ties between the KMT and companies in Taiwan. Investigations are underway into the practices of large state banks, which might implicate management right up to the top levels. However, no new laws are being put through to aid this effort, which might be attributed to the KMT still being in control of the legislature.

China authorities requiring more disclosure, and threatening prosecution, but regulatory uncertainty a major issue

In Mainland **China**, changes are coming about without any change in government. The leadership has come to recognise the runaway success of the private sector has much to do with the wealth creation for entrepreneurs and that similar incentives will be required for the SOEs to see any real management improvement. The securities regulator is now requiring A-share companies to improve on their reporting, for example, through producing statements of cashflow previously not required. Companies that continue to make losses for three years are being threatened with delisting. Companies that have falsified their accounts and speculators are now being threatened with public action. However, regulatory uncertainty – a macro factor that determines the ability of management to maximise shareholder value – remains a major issue, for instance with changes being signalled in the telecom regulatory framework coming just after the placement of shares by China Mobile.

Malaysia, Thailand, Indonesia and the Philippines – Improved rules but enforcement again the key

Contrast between top quality regulations, but uncertain enforcement in Malaysia

The country that has the greatest contrasting scores for top quality regulations and laws but with uncertain enforcement is **Malaysia**. The technocrats last year came up with Standards of Best Practices. The KLSE has tightened up listing requirements which among other things places severe restrictions on loans to third parties and to parent holding companies. However, a minority shareholders watchdog group proposed in 1999 is yet to be formed. The granting by the authorities of a waiver to the government from making a general offer for MAS, transactions between parent companies and listed subsidiaries at above market values and apparently ad hoc restrictions faced by certain groups continue to dominate newsflow. Investor interest has ebbed and market liquidity has fallen to the levels of the neighbouring TIPs markets.

Noticeable progress in Thailand, potential for advancement in Philippines while Indonesia grapples with the basics

Thailand's moves to improve CG appear more convincing. The SET has prompted the formation of an Institute of Directors which was established in October 1999 that is working as the forum for the improvement of Thailand's CG. By this year, mutual funds in Thailand are expected to require companies in which they invest to provide an outline of measures in place to ensure good CG. In the **Philippines**, the new president has adopted good overall governance as a key part of her agenda. Her administration is likely to build on recent moves to improve on transparency with more prompt disclosure of interim results and new accounting standards that will move towards IGAAP. **Indonesia**'s regulators last July introduced a new regulation requiring 30% of all directors to be independent and that listed companies must have an audit committee and a corporate secretary. However, the devil is in the details – eg, the definition of "independent" – and the regulators will probably have to move further to gain the trust of investors that their rights will be protected.

India and Pakistan – Contrasting rate of progress

Implementation of Mangalam committee recommendations is major progress for India

India ranks high for making significant progress on CG. In January 2000, the Securities and Exchange Board of India (SEBI) adopted the Mangalam committee recommendations, which included: 1) corporate boards to include no less than 50% non-executive directors, 2) a board committee chaired by a non-executive director that listed companies must set up to address shareholder and investor complaints, 3) annual reports to include a separate section on CG and contain a detailed compliance report, as well as other recommendations, eg, for audit committees to be headed by an independent director, board meetings to be held four times a year, etc. These requirements will be mandatory for all newly listed companies and are to be adopted in stages, but would cover 80% of the market (by capitalsation) by 1Q01. The teeth behind these regulations is that companies that fail to comply are being threatened with delisting. There is also an encouraging trend of companies setting CG standards beyond mandatory requirements. Infosys has been a pioneer in ushering unparalleled transparency and in effect sets the best standards for the rest of the market to follow.

Hope in Pakistan as it privatises further

In **Pakistan**, however, the improvements have been limited. Like other markets where CG is an issue, the companies with higher standards are the MNCs. However the government's efforts to privatise assets, and reducing its stake in for example Pakistan Telecom promises potential improvement in CG for these companies in order to generate sufficient added interest in their stock to be offered.

EEMEA and LatAm – Less urgency

New Capital Markets Board has power to act for minorities

In **Turkey**, a new Capital Markets Law came into force mid-2000, which among other things gives greater rights to minorities who control 5% of the share capital (from 10% previously) and gives power to the Capital Markets Board (CMB) to act on behalf of minorities. However, there are still contradictions in the various pieces of legislation, which could provide loopholes that may be exploited by major shareholders. The outcome of the ongoing case between the CMB and the Uzan group to get the major shareholders to return funds to their listed companies and to replace management in these companies will be a test case in the advancement of CG in the market.

South Africa might make best practice rules mandatory; risks however in affirmative action policies

South Africa has high standards from the exchange through the years adopting standards similar to those of the UK. A new report has put forward various prescriptions to make mandatory, rather than simply encourage, best practices. Amendments to be adopted will be announced in May. The adoption of affirmative action may be a dictate of the present political realities, but could result in unintended risks for shareholders due to the lack of skills available.

Most East European markets lack major CG initiatives

In most of the **East European** markets where CG standards are weak, there remains to be seen any convincing initiatives for investors to expect much improvement.

New US regulations will impact on disclosure practices, efforts to safeguard minority rights

US security regulations on fair disclosure implemented last year are the most important CG change for **Latin American** companies with ADRs, restricting companies from selective disclosure of information to analysts and fund managers. In **Brazil**, the regulators have enacted a rule requiring that an acquisition must be approved by two-thirds of shareholders giving minority shareholders greater bargaining power to avoid "liquidity corners". However a new Corporate Law that would grant minority shareholders greater rights when there is a change in control and in respect of preference shares has, however, been delayed and now appears to be only likely to come into force in 2002. In **Chile**, new regulations making mandatory offers to minorities when a bid is made to control a company will be a welcomed positive step but are only likely to come into force in late 2003. No major changes on the macro front regarding CG have been seen in **Mexico** over the past 12 months and there do not appear to be any changes on the agenda of the authorities.

China – Show 'em the money

High CG BUYs/Low CG SELLs

Company	CG Score (%)	Re-rating drivers
High CG BUYS		
Legend	71.1	Increasing premium for growth in an uncertain environment for equities. BUY.
Brilliance	69.5	Exceptional track record of value creation to continue with move into sedans. BUY.
CNOOC	61.3	Announcements of new discoveries will highlight value relative to global peers. BUY.
Low CG SELLs		
Southeast Power	29.9	Investments in financial services sector show a lack of management focus. SWITCH to GD Power.
China Everbright	33.0	Delays to listing of subsidiaries likely to halt the company's value creation efforts. U/PERFORM.
Shanghai Industrial	32.8	Investments in IT sector unlikely to boost company's poor value creation record in the short term. LT BUY.
CITIC Pacific	45.1	Ability to create value from telecom infrastructure investments under question. LT BUY.

Source: CLSA Emerging Markets

Latest CG developments

Country ratings for macro determinants of CG

	Rating (1-10)
Rules and regulations	4
Enforcement and regulation	2
Political/regulatory environment	4
Adoption of IGAAP	5
Institutional mechanisms and corporate governance culture	3

Source: CLSA Emerging Markets

State ownership means strong "social conscience" but political agenda takes precedence

H-share companies now disclose monthly operating performance and detailed financials

Improving corporate governance for PRC companies is difficult because the state remains the majority shareholder of most listed companies. While state ownership has engendered a strong "social conscience" among management teams, political agendas have tended to take precedence.

Things are improving. The strengthening of the securities regulator (CSRC) in recent years – including the hiring of former Hong Kong SEC executives Anthony Neoh and Laura Cha – has provided a catalyst for improvement. Stricter domestic accounting rules were introduced in 1999 and proper incentive schemes are becoming more commonplace among former SOEs. The latter received a lot of attention at the just-concluded National People's Congress (NPC). Companies with H shares have shown the biggest improvement over the past two years, now readily disclosing monthly operating performance and releasing detailed financial statements. However, minority shareholders only have a say when a company wants to purchase an asset from its parent. The likes of PetroChina and Sinopec are the flagships for improved corporate governance, offering a proper financial incentive scheme for senior and middle management, made up of profit targets, cost-cutting targets and shadow share options.

The private sector is also exemplary

With pressure also coming from the success of the private sector (as highlighted in our CG survey), we expect more companies to adopt management incentives and this is surely the best catalyst for moving management's interests away from a political agenda towards those of minority shareholders. The behaviour of overseas listed corporations, which are required to meet listing rules in places such as Hong Kong and the US, as well as the rapid growth of the private sector, will help accelerate change among the domestic A shares companies – where corporate governance has been particularly weak.

Management incentives receive top billing at NPC

In the recently concluded NPC, state-owned enterprise management incentive schemes received top billing for the first time. The leadership has come to recognise the runaway success of the private sector has much to do with the direct wealth creation for entrepreneurs, and that real improvement of management at SOEs can only come when SOE managers have the properly incentives. WTO accession provides a timeframe for when SOEs have to be dressed up for the ball and adds urgency to the situation. The measures discussed at the NPC include:

- Initiating incentive scheme experiments at large SOEs.
- Preparing 30-50 companies as global giants and readying them to list on China and Hong Kong stock exchanges.

CSRC will delist companies that lose money three years in a row

The CSRC under Zhou Xiaochuan has made aggressive efforts to improve corporate governance, particularly on the A-share bourses where the track record has been appalling. We note the following improvements:

- Requiring A companies to produce statements of cashflow.
- Threatening to delist companies that are loss making for three years (although Zhengzhou Baiwen has been allowed to be kept alive).
- Taking public action against both market speculators and companies that have falsified accounts.
- Tightening reporting requirements.
- Seminars for H-share managers on how better to deal with investor relations, ways to avoid disclosing insider information, etc.

Best and worst in recent CG events

The right direction through listings, examples set by private companies, revised incentives, CSRC employing professionals and the advent of independent directors

From a low base, but with the drive to improve, there are various cases of companies moving in the right direction. These include:

- **PetroChina and Sinopec listings** – These have set new standards for SOE management incentives, independent directorships and capital discipline.
- **Private companies lead the way** – The dynamic performance of listed private companies such as Legend, Brilliance and Phoenix has highlighted the benefits of improving SOE corporate governance via management incentives.
- **NPC focus on management incentives** – Seventeen years after SOE management reform was first attempted, the government finally gave the most realistic approach top billing at the NPC. Angang Steel is one of the companies chosen to establish an incentive scheme for senior and middle management.

- **CSRC hires Hong Kong professionals** – Expect CSRC to achieve real change in corporate governance now that Anthony Neoh and Laura Cha are on board.
- Non-executive directors – Brilliance China has appointed one more independent non-executive director to its board. This new member is a professor currently teaching at Southwest University of Finance and Economics, Chengdu, China.
- Independent directors – Guangdong Power has become the first B share company to appoint independent directors to its board. The company has also set up remuneration, audit and risk control committees.

Regulatory uncertainties remain

Regulatory uncertainties remain. This is especially true for the mobile and power companies. There appears to be a lack of will to implement delistings, among other things. We note below some recent events:

- **CPP debacle** – With China Mobile having just completed a placement and global roadshow, government comments on the introduction of calling-party pays (CPP) highlighted the murky telecoms regulatory framework and has severely dented the ratings of China's bellwether mobile stocks. Subsequent conflicting announcements have done little to calm investor fears.
- **Other regulatory pricing problems** – Airlines suffered recently with the sudden announcement that the regulator would increase allowable discounts for group travellers on seven routes. The power tariff regulatory framework has been further delayed by the California power crisis, which is perhaps good news for the power stocks. However, policy regarding power tariffs remains a long-term overhang.
- **Zhengzhou Baiwen** – The government appeared to back away from delisting the company even when it was declared bankrupt. The authorities have to yet to back up its threats of delisting companies with action.

Companies with CG upside potential

Company	CG Score (%)	Events that could change CG score
CNOOC	61.3	❑ As a recent listing, we have tended to score CNOOC conservatively due its lack of a track record as a listed company. ❑ We view CNOOC as one of the best managed listed PRC companies and expect the company's CG score to increase as this becomes more apparent. ❑ Joining the CLSA *Jet Stream*™ list. ❑ Company plans to issue quarterly results.
PetroChina and Sinopec	45.0	❑ Meeting 2002-2003 cost-cutting targets. ❑ Transparency may improve as restructuring proceeds.
China Everbright	33.0	❑ Further value-creating investments in financial sector. ❑ Listing of banking & securities subsidiaries. ❑ Reduced NPLs at Everbright Bank. ❑ Stable senior management.
Guangdong Power	30.8	❑ To add two independent directors (one economist + one lawyer) to board. ❑ To initiate remuneration committee, budgeting and auditing committee and investment and risk control committee under the board. ❑ First company to take such measures among the B shares.
Beijing Airport	49.9	❑ Strategic partnership with Aeroport de Paris significantly enhances non-aeronautical revenue growth.

Source: CLSA Emerging Markets

Companies with CG downside risk

Company	CG Score (%)	Events that could change CG score
Legend	71.1	❑ Senior management have become less accessible to investors.
Phoenix	67.7	❑ Value-destroying investments in the internet sector. ❑ Growth strategy is over-reliant on new Infonews channel – problems with this channel would have a significant impact on the stock's rating.
COSCO	61.2	❑ Any injection of inferior assets from the parent – this has been attempted twice in the past.

Source: CLSA Emerging Markets

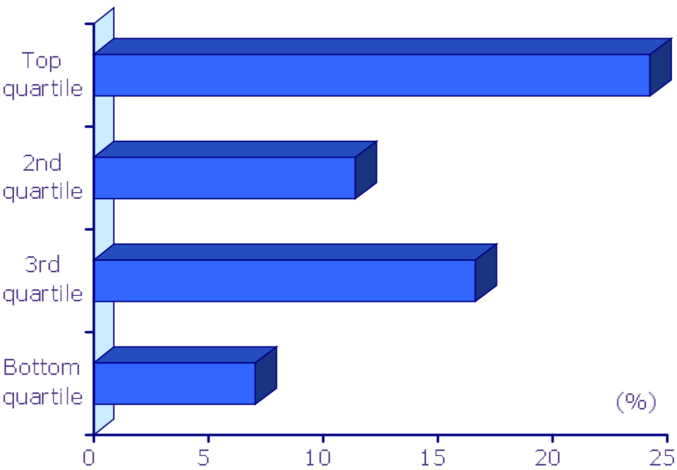
CG and financial performance

CG to ROCE, ROE and EVA™ for China sample

	Quartile CG ranking				Average of
	Top	Second	Third	Bottom	Country basket
ROCE (%)	29.2	12.5	16.1	4.6	14.2
ROE (%)	24.3	11.4	16.6	7.0	15.0
EVA™/IC (%)	11.7	(1.7)	1.8	(4.6)	0.9

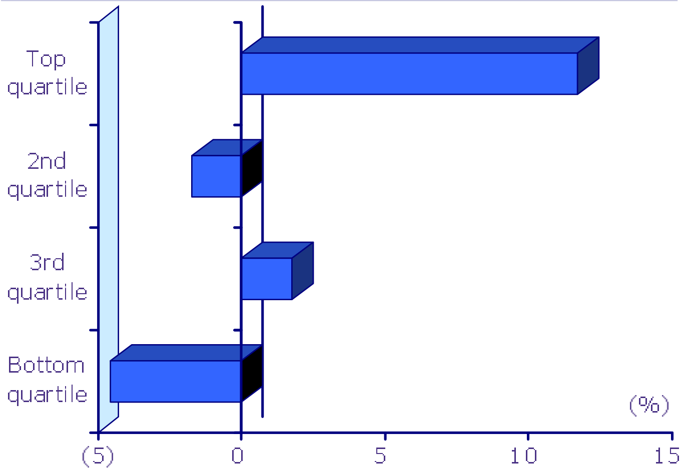
Source: CLSA Emerging Markets

CG rankings to ROE (%)



Source: CLSA Emerging Markets

CG rankings to EVA™



Source: CLSA Emerging Markets

❑ Within our China sample, companies that come into the top quartile for CG have much higher financial performance ratios than the market.

❑ On FY00 ROCE, the average for our China sample (25 companies) is 14.2%. The top quartile, however, had an average ROCE of 29% while the bottom quartile had a ROCE of only 4.6%.

❑ Similarly for ROE, the top quartile in our sample had an average ROE of 24.7%, the average of the sample is 15% and the bottom quartile showed an average ROE of only 7%.

❑ For EVA™ over invested capital, the average of the sample is 0.9%. The top quartile had an average of 11.7% while the bottom quartile had a EVA™/IC average of minus 4.6%.

❑ The extraordinarily high financial performance ratios for the companies in the top quartile comprise of the simple averages of Legend, Brilliance, Phoenix, CNOOC, COSCO Pacific and China Merchants. The high returns made by Brilliance, CNOOC and COSCO Pacific are the main contributors to the strong showing of the upper quartile.

CG and valuations

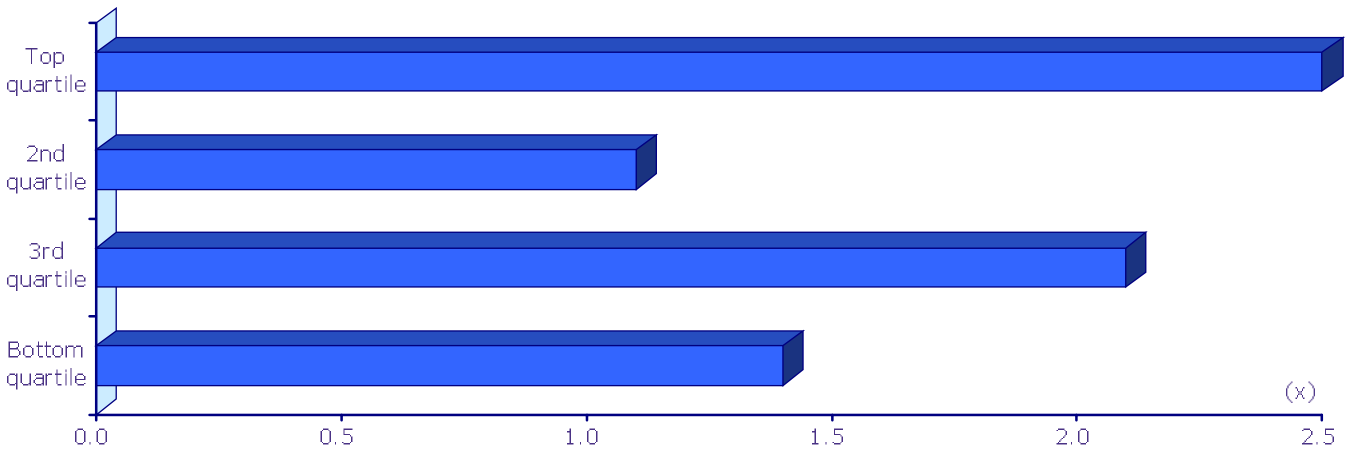
CG to PE and PB for China sample

	Quartile CG ranking				Average of
	Top	Second	Third	Bottom	Country basket
FY01 PE (x)	11.3	7.7	10.5	15.9	11.4
FY01 PB (x)	2.5	1.1	2.1	1.4	1.9

Source: CLSA Emerging Markets

Figure x

CG rankings and PB



Source: CLSA Emerging Markets

- Companies with better CG scores also tend to have higher valuations, but there are obviously other factors that come into play here.
- The most noticeable valuation premium is with regard to PB. The average of our China sample is 1.9x (for the recently completed financial year) while for the top quartile the average PB was 2.5x and for the lowest quartile the average PB was 1.4x. The high PB, particularly for the top quartile is partly owing to the high ROEs of Brilliance, COSCO and CNOOC.
- For PEs, the average of our sample was 11.4x current year earnings. The top quartile had an average that was in line with the sample average while the companies at the lowest quartile for CG in our China sample had the highest PE multiple of 15.9x.
- The average PE valuations of the bottom quartile is pushed up by Southeast Power & GD Power, which trade as B shares. Both have about doubled since the recent opening of this class of shares to domestic investors and are presently at 20x multiples. Also, red chip conglomerates Shai Ind, CITIC and China EB fall into the last CG quartiles but are large, liquid and have defensive earnings profiles, thus command multiples at a premium to overall China shares.

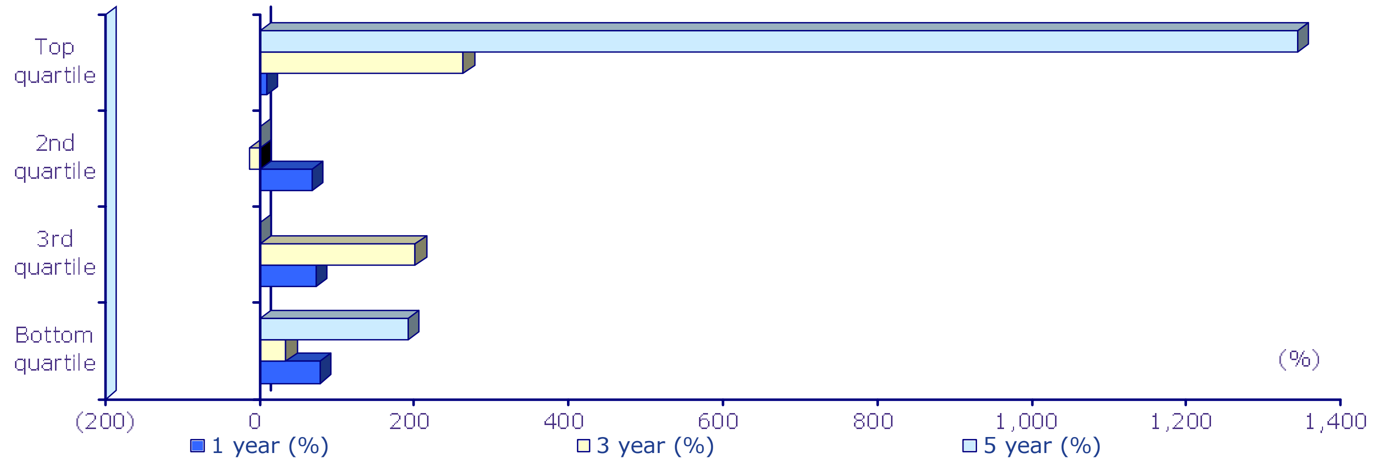
CG and share-price performance

Share-price returns (US$) to end-2000

	Quartile CG ranking				Average of
	Top	Second	Third	Bottom	Country basket
1-year share-price performance (%)	9.9	68.1	73.0	78.1	60.4
3-year share-price performance (%)	263.9	(12.5)	201.9	34.3	107.5
5-year share-price performance (%)	1344.1	n.a.	n.a.	192.4	685.9

Source: CLSA Emerging Markets

CG rankings and one-, three- and five-year performance to end-2000



Source: CLSA Emerging Markets

❏ Companies with good CG have clearly outperformed over the past three and five years, particularly for companies in the top quartile of CG scores.

❏ In our sample, the simple average return for 2000 was 60%. For the top quartile, the average performance of the stocks was, however, only 10%; while the bottom quartile performance last year was 78%. These numbers are distorted by the big correction in the tech sector last year, which hurt Legend, and the fact that one top-quartile stock – CNOOC – has only just listed. The strong performance of the bottom quartile was boosted by the tremendous performance of B shares Guangdong Power and Southeast Power.

❏ For the past three years, the simple average total return for the sample was 108%. The top quartile outperformed with a return of 264%, while the bottom quartile of stocks in the sample provided a 34% return. The companies in the top quartile that have had strong share-price performances over the past three years have been Legend and Brilliance.

❏ For the past five years, the average of the China basket provided a return of 686%, with the top quartile generating positive returns of 1,344% (simple average). This reflects the exceptional performance of Legend and Brilliance. Many of the stocks that are included in our sample, however, have not been listed for five years.

China companies sorted by CG

Company name	Discipline 15%	Transp. 15%	Indep. 15%	A/cability 15%	Resp. 15%	Fairness 15%	Social 10%	Wgtd avg 100%
Legend	55.6	70.0	85.7	62.5	66.7	77.8	83.3	71.1
Brilliance	66.7	50.0	78.6	62.5	83.3	88.9	50.0	69.5
Phoenix TV	44.4	80.0	64.3	62.5	66.7	100.0	50.0	67.7
CNOOC	66.7	80.0	28.6	50.0	66.7	83.3	50.0	61.3
Cosco Pacific	77.8	60.0	28.6	75.0	83.3	38.9	66.7	61.2
China Merchants	33.3	30.0	35.7	62.5	66.7	83.3	50.0	51.7
Zhejiang Expressway	44.4	50.0	64.3	12.5	50.0	88.9	50.0	51.5
China Southern Airlines	33.3	60.0	64.3	12.5	50.0	88.9	50.0	51.4
SIPD	33.3	50.0	64.3	12.5	50.0	83.3	66.7	50.7
Jiangsu Expressway	44.4	50.0	64.3	12.5	50.0	83.3	50.0	50.7
Datang	33.3	60.0	64.3	12.5	50.0	83.3	50.0	50.5
Beijing Airport	33.3	50.0	64.3	12.5	50.0	88.9	50.0	49.9
Yanzhou	22.2	50.0	64.3	12.5	50.0	83.3	66.7	49.0
China Eastern Airlines	33.3	40.0	64.3	12.5	50.0	88.9	50.0	48.4
Huaneng	11.1	60.0	64.3	12.5	50.0	77.8	66.7	48.0
China Mobile	66.7	70.0	14.3	0.0	66.7	83.3	33.3	48.5
PetroChina	66.7	60.0	28.6	50.0	33.3	27.8	50.0	45.0
Sinopec	66.7	60.0	28.6	50.0	33.3	27.8	50.0	45.0
CITIC Pacific	22.2	50.0	21.4	62.5	33.3	77.8	50.0	45.1
Unicom	55.6	60.0	14.3	12.5	50.0	83.3	33.3	44.7
China Resources	44.4	70.0	14.3	50.0	33.3	22.2	50.0	40.1
China Everbright	22.2	50.0	14.3	50.0	33.3	16.7	50.0	33.0
Shanghai Industrial	11.1	60.0	14.3	50.0	33.3	16.7	50.0	32.8
Guangdong Power	22.2	30.0	7.1	12.5	16.7	61.1	83.3	30.8
Southeast Power	11.1	30.0	7.1	12.5	16.7	66.7	83.3	29.9

Source: CLSA Emerging Markets

Patterns in the scores – China

	Question	"Yes" score in in country sample (%)	Comments
1	Explicit public statement placing a priority on CG	16%	Apart from Legend, COSCO Pacific and the three oil giants, PRC companies have not issued such statements. The three oil companies are recently listed however, indicating these sort of statements should become more commonplace.
2	Management incentivised towards a higher share price	48%	Management of former SOEs (H & B shares) cannot own shares. This is likely to change in future as it was announced at the NPC that incentive schemes would be put in place at large SOEs this year. PetroChina & Sinopec are pioneers - having put in place incentive schemes prior to listing.
3	Sticking to clearly defined core businesses	88%	Apart from the conglomerates, which by nature lack focus, most China stocks are single-business entities which have stuck to their core business. Even the conglomerates are becoming more focused as WTO entry looms.
4	Having an appropriate estimate of cost of equity	44%	Recent listings & quasi-private companies (Legend, Brilliance, etc) have a much clearer idea of the concept than earlier listed counterparts.
5	Having an appropriate estimate of cost of capital	48%	Recent listings & quasi-private companies (Legend, Brilliance, etc) have a much clearer idea of the concept than earlier listed counterparts.
6	Conservatism in issuance of equity or dilutive instruments	48%	A mixed bag. The 1996-97 red chip mania encouraged a lot of companies to make unwise investments. Capital discipline has improved since then.
7	Ensuring debt is manageable, used only for projects with adequate returns	40%	PRC companies are (overly) prudent in the use of debt. Matching of currency risk & duration has improved since the Asian financial crisis.
8	Returning excess cash to shareholders	20%	Only the telcos and airlines have maintained debt levels sufficiently high (& cash levels sufficiently low) so as not to erode ROE.
9	Discussion in Annual Report on corporate governance	16%	Only the oil companies & COSCO Pacific do this.
10	Disclosure of financial targets, eg 3-5 year ROA/ROE	12%	PetroChina & Sinopec have done so, which is arguably foolish given the volatility of oil prices. China Resources is the only other.
11	Timely release of Annual Report	76%	H shares are more disciplined than red chips in this respect.
12	Timely release of semi-annual financial announcements	80%	H shares are more disciplined than red chips in this respect.
13	Timely release of quarterly results	12%	The stringent disclosure requirements of the HK exchange are a disincentive for companies to announce quarterly results. Only Legend & CNOOC bother. Phoenix does as well, mainly because GEM board companies are only required to produce a P&L.
14	Prompt disclosure of results with no leakage ahead of announcement	24%	Some companies do not hold full board meetings ahead of results announcements.
15	Clear and informative results disclosure	84%	PRC companies' reports are particularly impressive, with the exception of some red chips.
16	Accounts presented according to IGAAP	100%	Company results are presented consistent with IGAAP; companies with ADRs also produce US GAAP accounts or statements showing differences with US GAAP.

Continued next page

Patterns in the scores – China (continued)

	Question	"Yes" score in in country sample (%)	Comments
17	Prompt disclosure of market sensitive information	16%	Investor relations is an area of weakness for PRC companies. "Bad news travels slowly" is a good adage for their behaviour. Lack of proper mgt incentives also contributes to the problem. Legend, COSCO and CNOOC set an example for others to follow.
18	Accessibility of investors to senior management	88%	Because many companies have weak IR departments, access to senior management has been good. This is likely to worsen however as companies create IR departments to handle investor/analyst/media requests. Legend is a good example of this trend.
19	Web-site where announcements updated promptly	60%	The larger companies (all of which are included in our selection) have all created useful web-sites.
20	Board and senior management treatment of shareholders	48%	An area for improvement. The disconnect between share prices of H & B shares and management remuneration has prevented this from happening in many cases. However, the picture is murkier for red chips.
21	Chairman who is independent from management	4%	The state-owned heritage of most listed companies means mgt are political appointees. In the case of quasi-private companies, mgt is dominated by the founder, who usually holds the chairmanship.
22	Executive decisions by management committee comprised differently from Board	4%	While some companies have created structures that appear to show independence, we believe there is little evidence of real independence at this stage.
23	Audit committee chaired by independent director	32%	Independent audit committees have become more common place.
24	Remuneration committee chaired by independent director	20%	Only Legend, China Merchants and the oils.
25	Nominating committee chaired by independent director	8%	Only Legend and China Merchants.
26	External auditors unrelated to the company	100%	In all cases that we know of, the auditors are independent of the company.
27	No representatives of banks or other large creditors on the Board	92%	Most companies do not have their bankers or creditors on the Board; the B-share power companies are the exception.
28	Board plays a supervisory rather than executive role	4%	Only Phoenix TV has achieved this.
29	Non-executive directors demonstrably independent	20%	In very few cases are independent directors demonstrably independent, the exceptions being PetroChina, Sinopec, Legend, Brilliance, Phoenix and COSCO.
30	Independent, non-executive directors at least half of the Board	4%	Once again, only Phoenix TV has achieved this.
31	Foreign nationals presence on the Board	24%	Six companies: Phoenix, COSCO, China Merchants, PetroChina, Sinopec and CITIC Pacific.
32	Full Board meetings at least every quarter	48%	Room for improvement.

Continued next page

Patterns in the scores – China (continued)

	Question	"Yes" score in in country sample (%)	Comments
33	Board members able to exercise effective scrutiny	80%	In theory, the board in most cases is able to exercise a supervisory role.
34	Audit committee that nominates and reviews work of external auditors	44%	Lower score here as we are unable to verify in most instances.
35	Audit committee that supervises internal audit and accounting procedures	44%	As above
36	Acting effectively against individuals who have transgressed	80%	Our approach to this question is to consider whether there exists a culture that pressures mgt to act in the interests of shareholders. The state-owned heritage of most companies helps here. Some red chips are exceptions.
37	Record on taking measures in cases of mismanagement	0%	If there have been cases, we expect they have been hidden from the investment community. Another example of "bad news travels slowly", or in this case, not at all.
38	Measures to protect minority interests	72%	Again, the state-owned heritage of companies has imbued mgt with a sense of doing good by all. Related party transactions are almost always independently verified. Some red chips are exceptions. Also, we have taken a conservative stance with regard to the oil companies due to the major shareholder's reliance on the listed company.
39	Mechanisms to allow punishment of executive/management committee	16%	Few companies have the mechanism to punish management for transgressions.
40	Share trading by board members fair and fully transparent	96%	The lack of share ownership makes this a non issue for now. We scored Legend negatively as changes to staff ownership have lacked transparency.
41	Board small enough to be efficient and effective	32%	A strong negativecorrelation between Board size and overall corporage governance score.
42	Majority shareholders treatment of minority shareholders	76%	Red chips have been offenders. We also score the oils negatively due to their lack of a track record.
43	All equity holders having right to call General Meetings	28%	The complex shareholding structures of H & B shares make this difficult.
44	Voting methods easily accessible (eg through proxy voting)	80%	In most cases.
45	Quality of information provided for General Meetings	92%	In most cases, the necessary information is provided at General Meetings.
46	Guiding market expectations on fundamentals	44%	A strong correlation between mgt efforts and overall score. Proper mgt incentives make a big difference here.
47	Issuance of ADRs or placement of shares fair to all shareholders	76%	Again, some red chips are transgressors. The convoluted approval process for new H & B equity issues, along with management belief that there companies are undervalued, mean that H & Bs score well. Among red chips, last year's CMHK & Legend placements were done at a healthy discount to peak prices.
48	Controlling shareholder group owning less than 40% of company	12%	State-owned entities remain the dominant shareholder in most cases.

Continued next page

Patterns in the scores – China (continued)

	Question	"Yes" score in in country sample (%)	Comments
49	Portfolio investors owning at least 20% of voting shares	60%	The oil & telecom stocks are notable exceptions.
50	Priority given to investor relations	100%	The CEO is normally tasked with leading the IR effort, so the head of IR reports to them.
51	Total Board remuneration rising no faster than net profits	64%	Where remuneration and benefits of directors have increased faster than profits, this is often because of the introduction of proper incentives. Remuneration for most H-share management remains extremely low relative to profits.
52	Explicit policy emphasising strict ethical behaviour	4%	Only Legend has issued a public statement emphasizing ethical behaviour.
53	Not employing the under-aged	100%	Part of companies' state-owned heritage.
54	Explicit equal employment policy	20%	Most companies do not have explicit statements. Equality in the workplace was arguably better under the planned economy.
55	Adherence to specified industry guidelines on sourcing of materials	88%	Most companies adhere to industry guidelines on sourcing materials with clear explanations in their listing prospectuses.
56	Explicit policy on environmental responsibility	20%	Few companies are proactive in improving the environment, but most have made big efforts to meet or exceed national environmental standards (which are becoming stricter).
57	Abstaining from countries where leaders lack legitimacy (Myanmar)	100%	None of the companies in our universe have operations in Myanmar - most view it as a bad place to invest.

Source: CLSA Emerging Markets

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Hong Kong – HKMA sets the lead

High CG BUYs/Low CG SELLs

Company	CG Score (%)	Re-rating drivers
High CG BUYS		
CLP	82.0	Defensive, good yield, strong cashflows, durable earnings and possible foreign expansion (Singapore deregulation). BUY.
Cathay Pacific	76.0	Economic recovery in the US in late 2001 will lead to a large turnaround in the stock currently at the bottom of its range (1.1x book and 7.5x earnings). BUY.
Giordano	73.9	Increased consumer spending in the region will be a major positive on this stock, which is able to sell well even in depressed economic environments. China is the big driver. BUY.
Hang Seng Bank	71.9	Cuts in interest rates, good positioning in the market, deregulation of deposit rate structure are all positives for the biggest domestic bank in Hong Kong. BUY.
Low CG SELLs		
PCCW	40.6	Poor disclosure, confused strategy and ongoing disbelief in all but the fixed line valuations will keep the stock under pressure. SELL.
Hutchison	42.7	Telecoms' falling expectations leading to a discount to DCF valuation. SELL.
Yue Yuen	43.4	No Olympics, US recessionary environment and slow consumer sales means little positive momentum for the athletic footwear company. SELL.
Wharf	54.8	Gateway will continue to act as a drag on the stock. Letting is slow and expected to remain so. SELL.
ASM	60.5	With IC packagers at 50% of capacity, who is going to order new equipment? SELL.

Source: CLSA Emerging Markets

Latest CG developments

Country ratings for macro determinants of CG

	Rating (1-10)
Rules and regulations	8
Enforcement and regulation	6
Political/regulatory environment (ie, interference)	6
Adoption of IGAAP	9
Institutional mechanisms and corp governance culture	6

Source: CLSA Emerging Markets

Hong Kong needs better CG standards, or risks losing its regional position

Corporate governance in Hong Kong – An update

The motivation for Hong Kong to excel in CG standards comes from its long standing position as Asia's financial hub. There are three key levels for this process from start to finish:

1. Recognition that CG is an issue that needs to be tackled.
2. Making rules for ensuring better CG standards.
3. Implementing the rules.

Awareness about CG is increasing in Hong Kong at all levels . . .

We believe that increasing awareness in Hong Kong of the importance of CG at all levels indicates that it is already well into the first stage. Selectively, the second stage is also being pursued (eg, Hong Kong Monetary Authority's recently announced rules to ensure banks' CG standards). However, it is too early for the third stage, which is also the most important.

. . . but little is being done in practical terms

CG is as much about pushing down the standards through the system as evolving them and adhering to them voluntarily. On the former, Hong Kong Monetary Authority (HKMA) has been doing far better than the SFC. In May 2000, it issued a guideline on CG to all banks operating in Hong Kong addressing the following issues:

HKMA has adopted an aggressive and proactive stance for banks

- Major responsibilities of the board of directors, which include ensuring competent management, prudent operations, etc.
- Legal obligations of directors.
- Guidelines on the use of internal and external auditors.
- Specific requirements – frequency of board meetings (at least once a quarter), establishment of an audit committee, individual directors to attend at least half of board meetings held in a year, HKMA to meet the full board of directors every year, etc.

HKMA is focused on enhancing banks' disclosure and transparency standards

The HKMA has put particular emphasis on banks' disclosure and transparency. As it is, the IMF has rated Hong Kong banks as having the best disclosure in the region. However, HKMA is extra vigilant here and requires banks to provide detailed information on financial performance, balance sheet position, risk exposures and risk management strategies. While HKMA has adopted a hands-on approach on micro-managing banks to ensure their CG standards improve, it is against providing any kind of CG supervisory ranking and prefers to leave it for the market.

Now the pressure is increasing on SFC to improve CG of listed companies

The pressure is increasing on the SFC to adopt a more active role in ensuring better CG standards among listed companies. For its part, SFC has formed a Standing Committee on Company Law Reform, and within that a Shareholders Subcommittee that will take up CG and other related issues. However, we believe that the recommendations from these committees will not be implemented in full or at all unless there is substantial noise from the investing public and other interested parties urging the SFC to become more active in formulating and enforcing CG regulations.

HAMS – Shareholder activism in Hong Kong

The setting up of HAMS is good news for investors in Hong Kong equities

David Webb, the editor of Webb-site.com has launched Hong Kong Association of Minority Shareholders (HAMS), a first of its kind, to promote shareholder activism in Hong Kong. The association seeks to protect minority shareholders' rights by issuing its own CG ratings on listed companies, represent minority shareholders as a group in companies' annual general meetings and even take some of the worst CG companies to court. HAMS is seeking government endorsement, in effect sponsorship, so that it has statutory immunity (same as enjoyed by the Consumer Council) to protect it from companies suing it for criticising their CG practices. It proposes a 'CG levy' to be imposed on market transactions to fund the creation and operating costs of HAMS.

Expect more action from the regulators

We believe this is a good start to what can soon become a key issue for both Hong Kong companies and regulators in the coming months and quarters. The culture of family-controlled businesses in Hong Kong will resist any profound advancement on the path to better CG. But a more aware (and noisy) general public, improving standards in the regional markets and the authorities' desire to consolidate Hong Kong's status as the regional financial centre will combine to foster gradual progress on this front. And expect these moves to be irreversible, as long as the public is on guard to preserve it.

Best and worst in recent CG events

Jardine Matheson continues to show signs of improvement

Shareholder action has reaped some benefits for long-suffering shareholders of Jardine Matheson. The share buy-back in group companies has led to improved EPS. The group structure continues to be a negative, in the sense that the family controls the group through a small direct shareholding in the top company, but this is no different from previously and unlikely to change in the foreseeable future. On the other hand, the message that minority shareholders want to see improvement seems to have taken root.

Cathay might reduce accessibility of management to analysts

We are a little concerned that the management of Cathay Pacific is about to put a halt to analyst meetings, allowing gatherings once every six months or quarter. The policy is not confirmed but it seems that fund managers will continue to be given access, but without any analyst accompaniment. We would urge management to keep the door open as wide as possible to promote the free travel of disclosable information to all shareholders in an even manner.

Hutchison providing helping hand to PCCW?

The sale of a small satellite services company to PCCW in return for shares has raised concern about Hutchison's relationship with Richard Li's company. While the resultant 0.8% shareholding in PCCW is not large, it has worried the market that this could be the start of a helping hand. Needless to say, management of both companies has insisted that this is an arms-length transaction.

Swire acting proactively in giving priority to sending out right message on CG

Swire Pacific is one of the best companies in regard to corporate governance in Hong Kong. It is only marked down significantly by the fact that there are two classes of voting shares (an anachronism from the past allowing the Swire family to control with less equity). Management called CLSA recently to discuss our last corporate governance report. Management's proactive interest and help provided in answering some of the questions is an extremely positive message from the company. We hope that this may be a signal that more companies will follow.

SCMP and Giordano distributing cash to shareholders

SCMP's score has suffered from past actions in acquiring TVE and using cash resources to start a share portfolio (leading to a HK$250m provision shortly afterwards). Management has taken a positive step recently by returning some cash to investors with a special dividend. Likewise, Giordano has paid a special dividend this year.

Companies with CG upside potential

Company	CG Score (%)	Events that could change CG score
PCCW	40.6	❑ Clearing C&W sell down. ❑ Improved accessibility to senior management. ❑ Improved transparency in regard to how investment decisions are made.
Hutchison	42.7	❑ Greater access to senior management. ❑ Improved transparency in annual report. ❑ Management tends to use cash reserves to provide funding to other group companies.
China Mobile	43.9	❑ The company suffers from a major question as to whether the Chinese authorities regard shareholders as more important than consumers. ❑ Ultimately, the government controls both, hence the playing field is uncertain.
Yue Yuen	43.4	❑ Share buyback programme currently is improving use of cash. ❑ The purchase of more shares in Proview from parent company has cast a question over the relationship with the parent again. A clearer picture of this and a wider distribution of shares will lead to improvement.

Source: CLSA Emerging Markets

Companies with CG downside risk

Company	CG Score (%)	Events that could change CG score
HSBC	93.5	❑ Given how good HSBC is relative to the rest of corporate Asia it is a concern since relatively it is difficult to see it improving. Quarterly reporting would help, but this is not likely in the near future.
Li & Fung	84.1	❑ The company is long cash. With a possible change in strategy from turnover growth to margin acceleration coming later this year if the management continue to hold this cash it may result in some downgrading.
Cathay Pacific	76.0	❑ The possible reduction in accessibility of management would be disappointing and probably lead to a lowering of the ranking.

Source: CLSA Emerging Markets

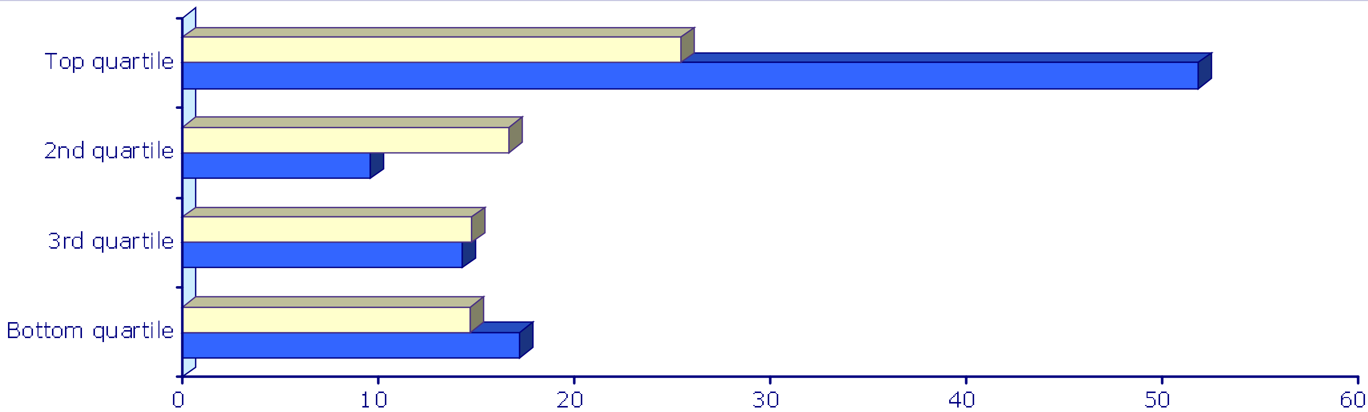
CG and financial performance

CG to ROCE, ROE and EVA™ for Hong Kong sample

	Quartile CG ranking				Average of
	Top	Second	Third	Bottom	Country basket
ROCE (%)	51.9	9.6	14.3	17.2	22.8
ROE (%)	25.4	16.6	14.7	14.7	17.2
EVA™/IC (%)	2.4	(4.8)	2.3	(0.2)	(0.1)

Source: CLSA Emerging Markets

CG rankings and ROE



Source: CLSA Emerging Markets

- Within our Hong Kong coverage, companies that come into the top quartile for CG have much higher financial performance ratios than the market, while the bottom quartile has poorer ratios.
- On FY00 ROCE, the average for our Hong Kong sample (38 companies) is 22.8%. The top quartile, however, had an average ROCE of 51.9%, while the bottom quartile had a ROCE of 17.2%. There is no linear progression through the quartiles though and it has to be noted that the top quartile is skewed by the high ROCE shown by Li & Fung of 315%, which is largely due to the large net cash position it is holding.
- Similarly for ROE, the top quartile in our sample had an average ROE of 25.4% while the average of the sample is 17.2% and the bottom quartile showed an average ROE of 14.7%.
- For EVA™ over invested capital, the average of the sample is -0.1%. The top quartile had an average of 2.4% while the bottom quartile had a EVA™/IC average of -0.2%.

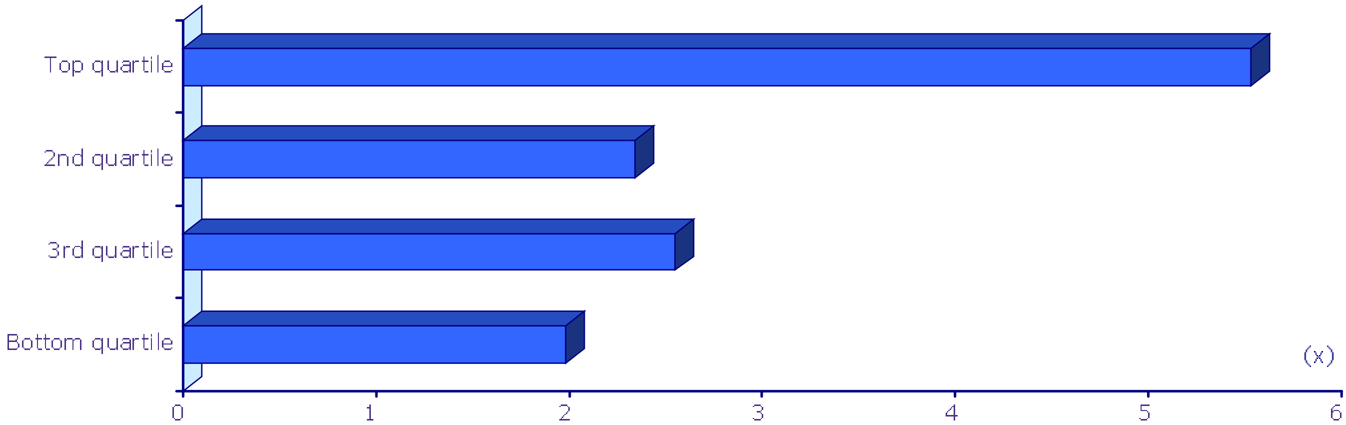
CG and valuations

CG TO PE and PB for Hong Kong sample

	Quartile CG ranking				Average of
	Top	Second	Third	Bottom	Country basket
FY01 PE (x)	15.6	10.5	26.1	21.0	18.3
FY00 PB (x)	5.5	2.3	2.5	2.0	3.1

Source: CLSA Emerging Markets

CG rankings and PB



Source: CLSA Emerging Markets

- The most noticeable valuation premium is with regard to PB. The average of our Hong Kong sample is 3.1x, while for the top quartile the average PB is 5.5x and for the lowest quartile the average PB is 2x.
- For PEs, the average of our sample was 18.3x. The top quartile had an average that was slightly lower at 15.6x. The companies in the lowest quartile had an average a multiple of 21x. Looking through the list of companies there seems to be no correlation between what investors are prepared to pay in terms of earnings and corporate governance. This should not be a surprise since the spread from top to bottom in Hong Kong in regard to the companies surveyed is relatively small. In addition, we are only providing a sample of the best companies in Hong Kong.

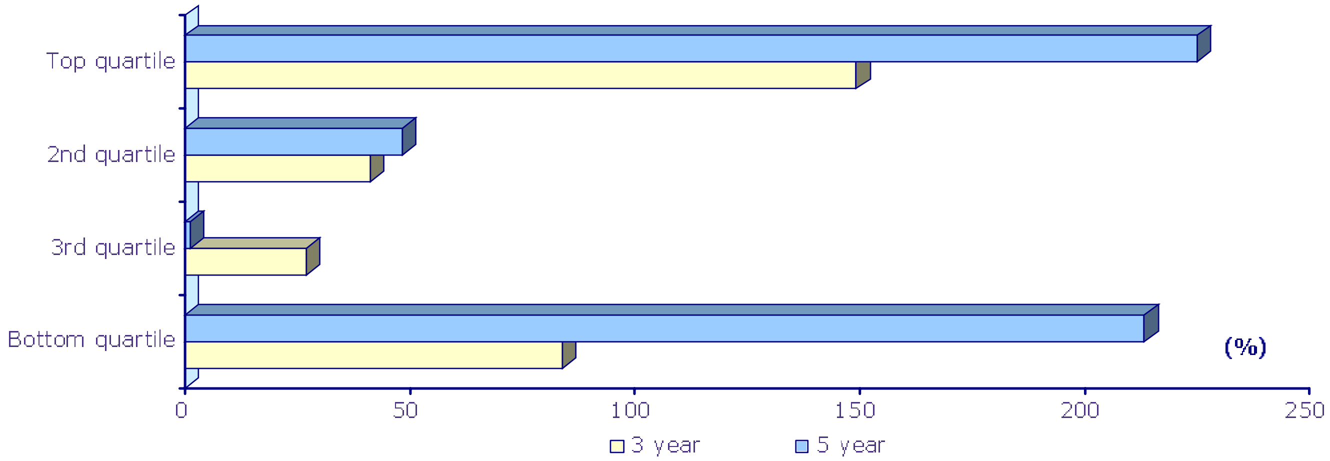
CG and share-price performance

Share price returns (US$) to end-2000

	Quartile CG ranking				Average of
	Top	**Second**	**Third**	**Bottom**	**Country basket**
1-year share-price performance	11.0	7.2	(14.5)	(16.9)	(3.3)
3-year share-price performance	132.6	41.2	24.3	74.5	66.3
5-year share-price performance	200.0	48.3	0.9	165.9	99.6

Source: CLSA Emerging Markets

CG rankings and three- and five-year performance to end-2000



Source: CLSA Emerging Markets

- Companies with good CG have clearly outperformed over the past one, three and five years.
- In our sample, the simple average return for 2000 was negative 3%. For the top quartile, the average performance of the stocks was positive 11%, while the bottom quartile performance was minus 17%.
- For the past three years, the simple average total return for the sample was 66%. The top quartile outperformed with a return of 133% while the bottom quartile of stocks in the sample only provided a 75% return. The performance of the bottom quartile is better than that of the second and third quartiles over this period since PCCW lies in this grouping. Over both a three- and five-year period, we have taken the PCCW share price rather than the blend or synthetic of Hong Kong Telecom.
- One has to be careful to conclude that the performance of stocks is due to good corporate governance since there is inevitably going to be a degree of analyst bias in regard to stocks that have disappointed in price performance terms in the current year. Therefore, the short-term performance of stocks (one year) should cause no raised eyebrows. However, the three- and five-year performance of the top quartile should generate more attention. There can be no doubt that good corporate governance does go hand in hand with both investors' interest in paying more on a relative basis for that company and in the company delivering greater returns.

Hong Kong companies sorted by CG

Company name	Discipline 15%	Transp. 15%	Indep. 15%	A/cability 15%	Resp. 15%	Fairness 15%	Social 10%	Wgtd avg 100%
HSBC	88.9	90.0	100.0	100.0	83.3	94.4	100.0	93.5
Li & Fung	100.0	70.0	71.4	75.0	83.3	94.4	100.0	84.1
CLP	88.9	90.0	92.9	75.0	83.3	50.0	100.0	82.0
Cathay Pacific	44.4	70.0	71.4	87.5	83.3	83.3	100.0	76.0
Giordano	88.9	70.0	71.4	62.5	66.7	100.0	50.0	73.9
Hong Kong Gas	77.8	80.0	78.6	50.0	83.3	50.0	100.0	73.0
Hang Seng Bank	55.6	70.0	78.6	75.0	83.3	72.2	66.7	71.9
Johnson Electric	44.4	70.0	71.4	62.5	83.3	88.9	66.7	69.8
SUNDAY	44.4	80.0	85.7	75.0	66.7	77.8	50.0	69.4
Swire	44.4	60.0	64.3	75.0	50.0	100.0	100.0	69.1
Dao Heng	44.4	70.0	71.4	75.0	83.3	77.8	50.0	68.3
Dah Sing	55.6	70.0	71.4	75.0	66.7	83.3	50.0	68.3
Bank of East Asia	55.6	70.0	71.4	62.5	83.3	77.8	50.0	68.1
Wing Hang	55.6	70.0	71.4	62.5	83.3	77.8	50.0	68.1
Hongkong Electric	77.8	70.0	71.4	50.0	66.7	50.0	100.0	67.9
Citic Ka Wah	55.6	70.0	71.4	62.5	83.3	72.2	50.0	67.3
Int'l Bank of Asia	55.6	70.0	71.4	62.5	83.3	72.2	50.0	67.3
Wing Lung	55.6	70.0	71.4	62.5	83.3	72.2	50.0	67.3
Esprit	77.8	70.0	21.4	62.5	83.3	94.4	50.0	66.4
I-Cable	44.4	80.0	71.4	37.5	83.3	83.3	50.0	65.0
Hongkong Land	44.4	80.0	42.9	75.0	100.0	33.3	83.3	64.7
SmarTone	44.4	50.0	85.7	50.0	83.3	83.3	50.0	64.5
Jardine Matheson	55.6	80.0	21.4	62.5	50.0	88.9	100.0	63.8
ASM Pacific	55.6	40.0	71.4	25.0	83.3	83.3	66.7	60.5
First Pacific	55.6	80.0	14.3	62.5	33.3	88.9	100.0	60.2
TVB	33.3	40.0	78.6	50.0	66.7	94.4	50.0	59.5
Sun Hung Kai Properties	33.3	70.0	35.7	37.5	83.3	83.3	66.7	58.1
Sino Land	22.2	70.0	35.7	37.5	83.3	83.3	66.7	56.5
Wharf	22.2	70.0	35.7	37.5	66.7	77.8	83.3	54.8
Henderson Land	33.3	70.0	35.7	37.5	66.7	77.8	66.7	54.8
Cheung Kong	33.3	60.0	35.7	37.5	66.7	83.3	66.7	54.1
China Mobile	66.7	60.0	14.3	0.0	66.7	83.3	16.7	45.3
SCMP	11.1	60.0	21.4	50.0	66.7	50.0	50.0	43.9
CITIC Pacific	22.2	40.0	21.4	62.5	33.3	77.8	50.0	43.6
Yue Yuen	22.2	40.0	21.4	50.0	66.7	33.3	83.3	43.4
Hutchison	33.3	40.0	7.1	37.5	33.3	88.9	66.7	42.7
China Unicom	55.6	50.0	14.3	12.5	50.0	83.3	16.7	41.5
PCCW	22.2	40.0	64.3	0.0	50.0	72.2	33.3	40.6

Source: CLSA Emerging Markets

Patterns in the scores – Hong Kong

	Question	"Yes" score in in country sample (%)	Comments
1	Explicit public statement placing a priority on CG	13.2%	While companies in Hong Kong increasingly acknowledge the importance of corporate governance only a few have incorporated it to this extent. It should be no great surprise that HSBC, Li&Fung and CLP are three of those that do and also happen to be the three most highly rated overall.
2	Management incentivised towards a higher share price	84.2%	Virtually all companies management teams in Hong Kong are heavily incentivised to see a higher share price. Most companies have substantial family and by extention management ownership. In some regards the high reliance on share price can be seen as a negative rather than a positive from time to time.
3	Sticking to clearly defined core businesses	73.7%	Most Hong Kong companies are relatively good at sticking to their core businesses although the property companies have tended to head down some weird and wonderful paths such as telecoms, dotcoms and other dubious additions in the past three years.
4	Having an appropriate estimate of cost of equity	23.7%	Only one quarter of our sample gave an indication of cost of equity that was close to our estimate using CAPM.
5	Having an appropriate estimate of cost of capital	23.7%	The same proportion of companies provided an estimate of WACC that was close to CLSA's estimate.
6	Conservatism in issuance of equity or dilutive instruments	81.6%	Most companies have not issued equity or warrants for financing of acquisitions/projects in a way that raised controversy.
7	Ensuring debt is manageable, used only for projects with adequate returns	65.8%	Use of debt has been reasonably prudent with the notable exception of PCCW.
8	Returning excess cash to shareholders	76.3%	Over the years Hong Kong companies have become better at managing their balance sheets. Less cash is left sitting idle. Buy back programs, special dividends, etc, are more prevalent today than previously. Li & Fung, Johnson Electric, Giordano, SCMP and a few others score negatively on this although Giordano and SCMP are showing improvement with special dividends.
9	Discussion in Annual Report on corporate governance	18.4%	Few companies dedicate a section to this. Li & Fung, CLP, iCable, SmarTone and SUNDAY are a few notable exceptions.
10	Disclosure of financial targets, eg 3-5 year ROA/ROE	2.6%	This has not taken off in Hong Kong. Probably because management feel uncomfortable being held to specific targets in print.
11	Timely release of Annual Report	97.4%	Last July the authorities insisted on companies announcing within 4 months of year end. However, almost all of the sample of companies we cover in Hong Kong report within 3 months and produce their report and accounts within 4.
12	Timely release of semi-annual financial announcements	84.2%	The HSKSE requires interim results to be announced within a three months. Some of the companies surveyed do not feel pressured into earlier announcement. Sino, SHKP, Henderson Land and Wharf are notable exceptions here.

Continued next page

Patterns in the scores – Hong Kong (continued)

	Question	"Yes" score in in country sample (%)	Comments
13	Timely release of quarterly results	2.6%	Hong Kong does not require quarterly reporting.
14	Prompt disclosure of results with no leakage ahead of announcement	94.7%	Most companies announce their results within two working days of the board meeting to confirm the results.
15	Clear and informative results disclosure	84.2%	All companies surveyed have to observe strict financial reporting requirements. However, it is the comparability of numbers in the reports from year to year and the breakdown of line items provided which often fail to reconcile with previous years which lead to declining transparency. While perfectly "correct" this practice can denegrate the quality of required information disclosure.
16	Accounts presented according to IGAAP	44.7%	About half of Hong Kong companies present their accounts in a manner not consistent with IGAAP.
17	Prompt disclosure of market sensitive information	73.7%	Relevant information is not always disclosed promptly.
18	Accessibility of investors to senior management	81.6%	Most companies provide good access.
19	Web site where announcements updated promptly	92.1%	Less than of the companies have an English language web site where announcements are presented promptly.
20	Board and senior management treatment of shareholders	60.5%	The majority of the companies surveyed are the "flagship" companies. This has tended to align interests with the minorities well. However, there are a number of instances where this is not the case. For example, Yue Yuen's purchase of shares in a tech company of its parent – although small, it is an uncertain move. Hutchison has acted as a group "banker" to several companies in the stable. While this may not necessarily be a bad policy it is not one that other shareholders can feel entirely comfortable with.
21	Chairman who is independent from management	5.3%	Given that almost all companies are family owned there only a few have genuinely independent non-exec chairmen. HSBC is the most notable exception.
22	Executive decisions by management committee comprised differently from board	21.1%	In less than one quarter of cases is there any substantial difference between the management committee and the board.
23	Audit committee chaired by independent director	86.8%	Most companies have an audit committee chaired by an independent director.
24	Remuneration committee chaired by independent director	31.6%	Less than a third of the companies in the sample have a remuneration committee.
25	Nominating committee chaired by independent director	23.7%	Even fewer companies have a nominating committee.
26	External auditors unrelated to the company	100.0%	In all cases the auditors are independent.
27	No representatives of banks or other large creditors on the board	84.2%	Most of the companies are free from influence directly at the board level of large creditors.
28	Board plays a supervisory rather than executive role	42.1%	In more than half the cases the board is not substantially different from the key management personnel.

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Patterns in the scores – Hong Kong (continued)

	Question	"Yes" score in in country sample (%)	Comments
29	Non-executive directors demonstrably independent	18.4%	In few cases are independent directors demonstrably independent.
30	Independent, non-executive directors at least half of the board	13.2%	Given the family shareholding culture few are willing to cede much power to independent directors.
31	Foreign nationals presence on the board	65.8%	Most companies have a foreign national on the board, since Hong Kong is a melting pot of many different nationalities this is not a surprise. Whether many of these really add substantive credibility is not clear but the mix is broadly good for governance.
32	Full board meetings at least every quarter	81.6%	Most companies have board meetings every quarter.
33	Board members able to exercise effective scrutiny	94.7%	Generally, board members are given reports well ahead of meetings and are sufficiently briefed.
34	Audit committee that nominates and reviews work of external auditors	60.5%	As above
35	Audit committee that supervises internal audit and accounting procedures	60.5%	As above
36	Acting effectively against individuals who have transgressed	92.1%	Few companies have transgressed in an obvious fashion.
37	Record on taking measures in cases of mismanagement	57.9%	Not a strong score as most companies would have no such record.
38	Measures to protect minority interests	78.9%	Most companies have a demonstrable record of protecting all shareholders.
39	Mechanisms to allow punishment of executive/management committee	65.8%	About a third of the companies have no clear mechanisms to correct for mismanagement.
40	Share trading by board members fair and fully transparent	89.5%	Share trading by insiders is usually fair and transparent, but not always so.
41	Board small enough to be efficient and effective	60.5%	40% of companies in the sample have boards of more than 12 members.
42	Majority shareholders treatment of minority shareholders	84.2%	In some cases, it would appear that decisions have favoured major shareholders over minorities.
43	All equity holders having right to call General Meetings	86.8%	In general, the shares owned by minorities are ordinary shares where all shareholders can call for General Meetings. Swire scores negatively on this since it has two clasifications of shares, one of which has much higher voting power.
44	Voting methods easily accessible (eg, through proxy voting)	100.0%	Voting methods are not a problem in Hong Kong.
45	Quality of information provided for General Meetings	100.0%	Ditto for information being provided at General Meetings.
46	Guiding market expectations on fundamentals	73.7%	In most instances – yes.

Continued next page

Patterns in the scores – Hong Kong (continued)

	Question	"Yes" score in in country sample (%)	Comments
47	Issuance of ADRs or placement of shares fair to all shareholders	57.9%	Opportunistic placements and eeking full value from IPO's and other issues is part of the culture of Hong Kong. While there should be a symbiotic relationship between the senior shareholders and others this is not, unfortunately, always the case. However, for existing shareholders (all types) there is an inherent conflict, in that management should always look to sell equity at the best price so as not to dilute them cheaply.
48	Controlling shareholder group owning less than 40% of company	42.1%	Since the general offer trigger in Hong Kong is 35%, in many instances majority shareholders do not feel the need to hold much more than this directly. On the other hand, few have less than 35%.
49	Portfolio investors owning at least 20% of voting shares	44.7%	Many institutional shareholders are beginning to take these issues up. However, action thus far has been fragmented and usually frustrated.
50	Priority given to investor relations	86.8%	In most cases, investor relations is given quite high priority.
51	Total board remuneration rising no faster than net profit	60.5%	For about 40% of the companies board remuneration appears to have outstripped profit.
52	Explicit policy emphasising strict ethical behaviour	23.7%	Nearly 30% of the companies have a public statement emphasising ethical behaviour.
53	Not employing the under-aged	89.3%	While a couple of companies do not have an explicit policy here, none that we know of actually do employ "underaged" staff or labour.
54	Explicit equal employment policy	89.5%	As above
55	Adherence to specified industry guidelines on sourcing of materials	76.3%	Most companies adhere to industry guidelines on sourcing materials.
56	Explicit policy on environmental responsibility	39.5%	HSBC, the power companies, Li & Fung and Giordano have been pioneers in Hong Kong in this field. With the advent of ASrIA setting up in Hong Kong in the past couple of months. This awareness is going to increase quickly.
57	Abstaining from countries where leaders lack legitimacy (Myanmar)	97.4%	Most Hong Kong companies have no operations in Myanmar.

Source: CLSA Emerging Markets

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India – Mangalam unmangles CG standards

High CG BUYs/Low CG SELLs

Company	CG Score (%)	Re-rating drivers
High CG BUYs		
Infosys	93.3	Superior business delivery model, will enable the company to report strong growth. CLSA Jet Stream® company. BUY.
HDFC Bank	85.4	Continued strong organic growth will sustain rich valuations. Acquisitions provides valuation upside. BUY.
Hughes Software	73.1	Strong parentage and a non-linear business model will help sustain growth in the current environment. LT BUY.
Hindustan Lever	67.4	Rationalisation of brand portfolio will improve margins. New businesses to drive growth. BUY.
ITC	67.1	Pricing power intact, will deliver positive surprises in earnings growth. BUY.
Low CG SELLs		
Silverline	40.3	Weaker client base and higher exposure to onsite services make Silverline susceptible to a slowdown. Issues of operational integration with recently acquired companies is a concern. SELL.
SSI Ltd	43.4	Shorter track record in the software development business can expose SSI to the US slowdown. High exposure to a few clients and exposure to affiliate companies is a concern. SELL.
Nicholas Piramal	47.7	At a competitive disadvantage to peers in exports and R&D. SELL.
Tata Infotech	49.2	Faces pressures on business generation due to weak international marketing infrastructure. SELL.
Telco	50.9	Weak HMV demand and slower growth in car sales due to intensive competition, will keep financials in red. SELL.

Source: CLSA Emerging Markets

Latest CG developments

Country ratings for macro CG determinants

	Rating (1-10)
Rules and regulations	7
Enforcement and regulation	5
Political/regulatory environment (ie, interference)	5
Adoption of IGAAP	5
Institutional mechanisms and CG culture	6

Source: CLSA Emerging Markets

Key CG-related recommendations have been made

In 1999, the Securities and Exchange Board of India (SEBI) constituted the Kumar Mangalam committee on CG. The recommendations of this committee were adopted in January 2000. Key recommendations made by the committee and approved by SEBI were:

- Broad-basing of corporate boards by including not less than 50% non-executive directors. At least one-third of the board to comprise of independent directors, if the board is headed by an non-executive chairman; if the board is headed by an executive chairman then at least half of the board to be made up of independent directors.
- Setting up of an audit committee headed by an independent director. The audit committee will have at least three members, all being non-executive directors, with the majority of them being independent.

- Board meetings will have to be held at least four times a year, with a maximum time gap of four months between any two meetings.
- Companies will have to set up a board committee under the chairmanship of a non-executive director to specifically redress shareholder and investor complaints.
- Companies will have to include a separate section on CG in their annual reports. This section would also contain a detailed compliance report.

Adoption of the CG-related recommendations is mandatory for all companies seeking listing, most listed companies will have to comply by March 2001

Since the adoption of these recommendations, SEBI has made it mandatory for all new companies seeking exchange listing to adopt these recommendations. These recommendations have also been made applicable for the existing listed companies, but with a time lag. In the first phase, to be completed by 31 March, 2001, the recommendations would apply to companies that collectively account for over 80% of the market capitalisation. Most of the rest will have to comply by the end of March 2002. Defaulting companies run the threat of being de-listed.

Overall CG standards are set for a big improvement

Infosys was the first Indian company to emphasise good CG in India, much before it was given emphasis by SEBI. This not only gave visibility for the company, but also brought pressure on other companies to raise their CG standards. There is an encouraging trend of more companies scaling up their CG standards, going beyond mandatory standards. Infosys was a pioneer in inducting independent directors to its board, reporting its accounts as per the GAAP of seven major developed countries, providing a detailed management discussion on reported earnings and ushering in unparalleled transparency. With several of the best practices followed by Infosys now becoming mandatory, and with investors pushing companies to adopt these best practices, we believe that overall CG standards are set for substantial improvement in India.

Best and worst in recent CG events

GTB – a case of price rigging?

Allegations of price rigging of Global Trust Bank (GTB) shares, ahead of its merger with UTI Bank, is the most recent CG controversy. While the matter is sub-judice and both the RBI and SEBI are investigating the matter, GTB shares have more than halved since the controversy arose. The merger ratio was fixed at 9:4 in favour of GTB shareholders. The parent of UTI Bank has now approached an accounting firm to look afresh at the exchange ratio and the valuation of GTB, but the damage has already been done. This issue brings to the fore problems of insider trading in India, as well as price manipulation of stocks. While there are laws in place to penalise insider trading, few are actually noticed. Hence enforcement of the laws on insider trading is very difficult, as in most other countries.

Mastek – took the lead in highlighting the changing environment

Mastek, in April 2000, became among the first Indian companies to promptly disclose a material change in business environment. The company announced that its level of engagement with one of its top five clients was falling and guided analyst estimates accordingly, something quite unique in India. Though the stock reacted negatively, the company scored well for it superior level of disclosure. Mastek is in the top quartile of our CG score rankings. Their action has set a standard for other companies to follow.

SSI - poor disclosure pulls down ratings

SSI has received tremendous flak from investors for selective disclosure. The company failed to make clear the contribution of one-off product sales in its FY00 financial performance. This came to light only after 1QFY01 results were declared showing unimpressive sequential revenue growth and a drop in operating margins. Further, the company also failed to explain satisfactorily to shareholders why it took a stake in an affiliate venture at valuations significantly higher than that paid by other investors in the same venture. The de-rating of the stock has been severe.

Zee – suicidal

Zee's consolidation deals last year turned out to be its nemesis. The merger of private held companies of the promoters at exorbitant valuations pushed up Zee's shareholders' funds by nearly 20x and the promoter holding from 51% to 70%. However, the company's ROE plummeted from 32% in FY99 to 9.6% in FY00. The initial enthusiasm due to gains from this merger quickly waned and the market punished the stock, which fell 90% from its peak. The promoter's move to buy back the stake in two loss-making subsidiaries (which had been sold earlier to Zee by the promoter) was seen as an attempt to boost Zee's sagging share price, which only sent further wrong signals.

Sterlite – slipping on promises

In October 2000, Sterlite announced that its board had approved a programme to buy back shares through market operations up to 25% of its outstanding equity capital at a price not exceeding Rs200/share. The market reacted positively to the announcement, as the maximum buyback price was considerably higher than the then-prevailing price of Rs140, signalling management confidence in the company's prospects. Also, the company was starting to generate free cashflow after three to four years and management appeared inclined to return excess cash to shareholders. However even in March 2001, after the stock had fallen back to Rs120-130 (due to short-term concerns arising from labour unrest at Balco, which Sterlite had just taken over), no buyback had been carried out. Investors, questioning the seriousness of management's buyback intentions, sold the stock down to a low of Rs82.

Companies with CG upside potential

Company	CG Score (%)	Events that could change CG score
Reliance Industries	59.7	❑ Presentation of accounts as per IGAAP, including consolidation of accounts of subsidiaries
VSNL	53.4	❑ Privatisation potential
Hindalco	50.9	❑ Potential listing in NYSE

Source: CLSA Emerging Markets

Companies with CG downside risk

Company	CG Score (%)	Events that could change CG score
ICICI	66.5	❑ Continued delays in provisioning for its NPLs
Nestle	59.2	❑ Unwillingness to meet investors or reply to any investor queries
Ranbaxy	56.3	❑ Delay in getting R&D milestone payments

Source: CLSA Emerging Markets

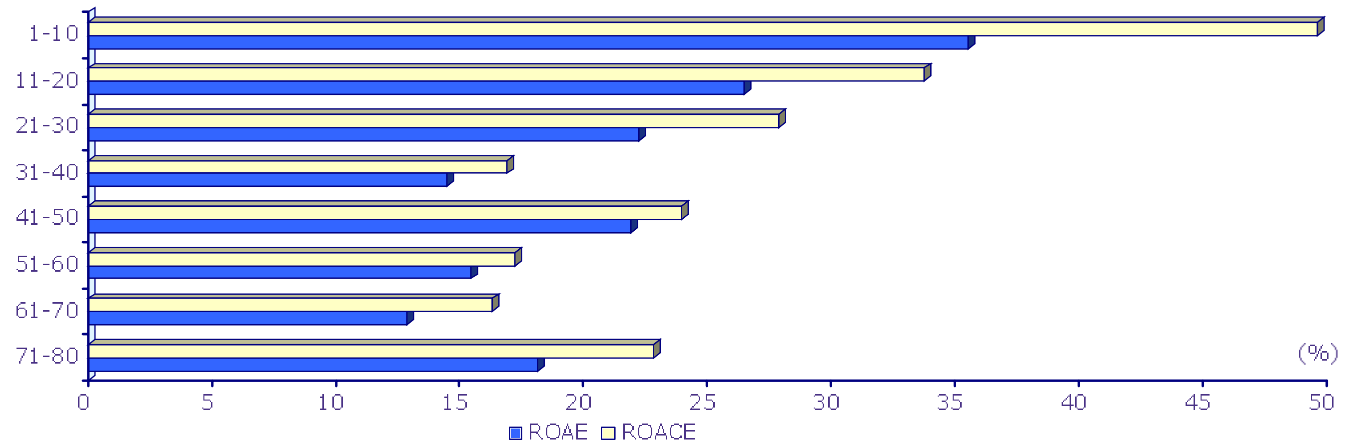
CG and financial performance

CG rankings and financial performance

	Quartile CG ranking				Average of
	Top	Second	Third	Bottom	Country basket
ROCE (%)	40.7	23.1	20.4	19.6	25.4
ROE (%)	31.0	18.4	18.6	15.5	20.9
EVA™/IC (%)	15.4	1.4	(0.3)	(3.2)	2.8

Source: CLSA Emerging Markets

CG to ROCE, ROE



Source: CLSA Emerging Markets

- Within our Indian sample we observe that companies with high CG scores also have superior capital efficiency ratios. The top quartile of companies (ie, the top 20 of the India sample) on a simple average had the best ratios of ROCE (41%), ROE (31%) and EVA™/invested capital (15%), while those in the bottom quartile returned lower capital efficiency ratios than the market averages.
- The financial performance of the top ten companies is more pronounced as their ratios are much ahead of the next ten. The top ten companies in our CG rankings for India include Infosys, HDFC Bank, Wipro, HDFC, Castrol, ICICI Bank, Hughes Software, Mastek, HLL and ITC. The service business orientation of a majority of these companies and their global outlook has clearly contributed to this significant correlation between their high CG scores and strong financial performance.
- Software services companies, enjoying the strong competitive advantage of the industry, return high capital efficiency ratios despite having large cash reserves. Among the top 20 companies, six are software companies.
- The bottom quartile of companies has returned the worst performance vis-à-vis all ratios – ie, ROE, ROCE and EVA™/invested capital. Most companies in this quartile have been involved in large fund raisings to support weaker business models. However, a few of them have also suffered on account of the cyclical nature of their businesses.
- The top quality companies in India not only generate strong financial performance, but also provide comfort vis-à-vis CG.

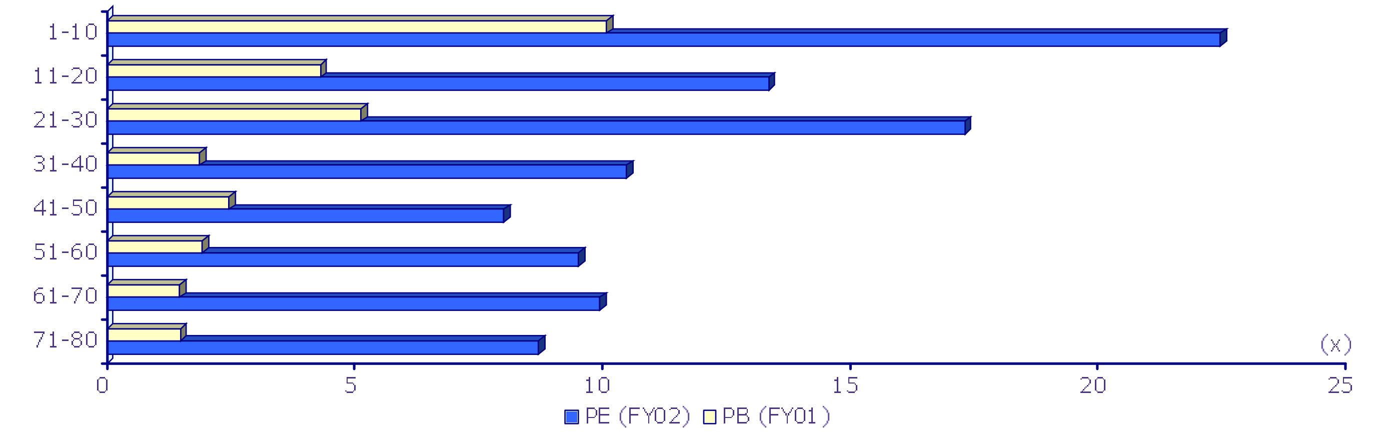
CG and valuations

CG rankings and valuations

	Quartile CG ranking				Average of
	Top	**Second**	**Third**	**Bottom**	**Country basket**
PE (FY02)	17.9	13.9	8.7	9.3	12.5
PB (FY01)	7.2	3.5	2.2	1.5	3.6

Source: CLSA Emerging Markets

CG to PE and PB

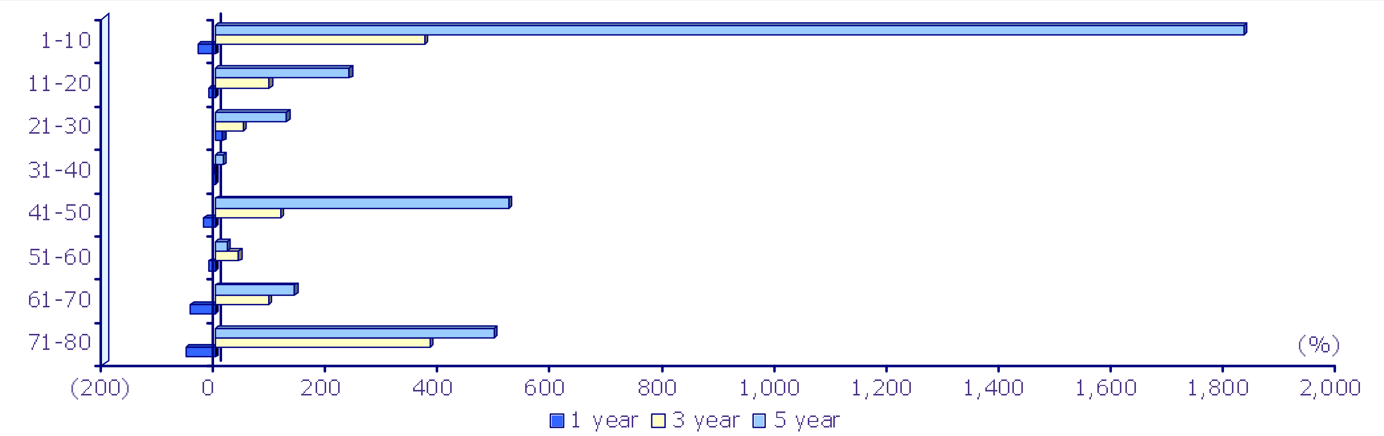


Source: CLSA Emerging Markets

- Companies in the top CG quartile enjoy premium valuations. This is, of course, partly due to their higher earnings growth and superior capital efficiency. Rich valuations of Wipro also contributes towards pushing up average valuations in the top quartile.
- As most companies in the top quartile are software and FMCG companies which have high ROEs, the PB is nearly twice the sample average.
- Companies in the bottom quartile are trading at significant PE discounts relative to the market average. Most of these companies have cyclical businesses or are largely government owned. Investor confidence in the reported earnings of these companies is low, resulting in cheap valuations.

CG and share-price performance

CG rankings and one-, three- and five-year share-price performance to end-2000



Source: CLSA Emerging Markets

CG and share-price performance

	Quartile CG ranking				Average of
	Top	Second	Third	Bottom	Country basket
1-year share-price performance	(21.3)	4.7	(16.1)	(48.4)	(19.9)
3-year share-price performance	234.3	25.0	81.1	230.7	139.1
5-year share-price performance	988.8	80.9	272.0	308.3	410.5

Source: CLSA Emerging Markets

- In terms of share-price performance, the top quartile has reported spectacular returns particularly over the last three and five years. This is mainly due to high-growth software companies, like Infosys (up 12x and 77x in the past three and five years respectively) and Wipro (up 13x and 55x in the past three and five years respectively) being in the top quartile. In general, companies with good CG records have generated superior long-term returns for shareholders. Over the past year, the top quartile has underperformed, due to the global de-rating of growth stocks, particularly those related to the technology sector.
- Companies in the second quartile have been strong performers over the past year, but have been big underperformers over a longer term. The second quartile comprises several public sector undertakings, which have steady businesses and hence benefit from investors' shift from growth stocks. They have also seen some re-rating due to upside from privatisation. This quartile also includes companies like Reliance, Nestle, Britannia and Tisco, which have reasonable certainty over cashflow and are considered safe havens in an uncertain global growth environment.
- If we were to take out the software stocks from our share-price performance analysis (see figure below), we observe the top quartile's average relative price performance has been better. However, the re-rating seen in stocks like McDowell, UB and Pfizer skews the second best performance of the fourth quartile average in the three- and the five-year period.
- The bottom quartile has also shown amazing performance over the past five years led by second line software stocks. However, we believe that most of the stocks in this quartile are headed for a sustained period of de-rating.

Share-price performance, excluding software stocks

	Quartile CG ranking				Average of
	Top	Second	Third	Bottom	Country basket
1-year share-price performance	(3.7)	9.8	(12.6)	(30.8)	(7.6)
3-year share-price performance	100.1	21.4	24.2	69.9	49.0
5-year share-price performance	222.7	82.7	22.7	89.3	98.0

Source: CLSA Emerging Markets

India companies sorted by CG

Company name	Discipline 15%	Transp. 15%	Indep. 15%	A/cability 15%	Resp. 15%	Fairness 15%	Social 10%	Wgtd avg 100%
Infosys	88.9	90.0	92.9	100.0	83.3	100.0	100.0	93.3
HDFC Bank	88.9	70.0	78.6	75.0	100.0	88.9	100.0	85.2
Wipro	88.9	70.0	78.6	75.0	66.7	88.9	100.0	80.2
HDFC	77.8	50.0	78.6	75.0	83.3	83.3	100.0	77.2
Castrol	88.9	30.0	92.9	87.5	50.0	77.8	100.0	74.1
ICICI Bank	55.6	70.0	78.6	62.5	83.3	83.3	83.3	73.3
Hughes Software	66.7	50.0	85.7	62.5	66.7	88.9	100.0	73.1
Mastek	77.8	60.0	78.6	50.0	50.0	94.4	100.0	71.6
Hindustan Lever	88.9	50.0	78.6	37.5	33.3	94.4	100.0	67.4
ITC	66.7	50.0	92.9	37.5	33.3	100.0	100.0	67.1
ICICI	66.7	70.0	78.6	50.0	33.3	88.9	83.3	66.5
Hero Honda	33.3	60.0	71.4	62.5	50.0	100.0	83.3	64.9
HCL Technologies	55.6	50.0	78.6	75.0	66.7	38.9	100.0	64.7
NIIT	88.9	40.0	78.6	50.0	66.7	38.9	100.0	64.5
Larsen & Toubro	66.7	30.0	100.0	87.5	16.7	83.3	66.7	64.3
Indal	88.9	30.0	78.6	87.5	16.7	77.8	66.7	63.6
BPCL	66.7	40.0	71.4	75.0	33.3	77.8	83.3	63.0
Gujarat Gas	77.8	40.0	64.3	37.5	50.0	83.3	100.0	62.9
Cadbury	66.7	40.0	71.4	37.5	33.3	94.4	100.0	61.5
Cipla	66.7	40.0	71.4	25.0	50.0	88.9	100.0	61.3
Glaxo India	55.6	30.0	71.4	50.0	50.0	83.3	100.0	61.1
IDBI	44.4	20.0	78.6	62.5	66.7	77.8	83.3	60.8
HPCL	66.7	10.0	64.3	75.0	50.0	77.8	83.3	59.9
Reliance Industries	88.9	50.0	28.6	75.0	66.7	44.4	66.7	59.7
Colgate	66.7	40.0	71.4	25.0	33.3	94.4	100.0	59.6
Nestle	66.7	30.0	71.4	37.5	33.3	88.9	100.0	59.2
Punjab Tractors	22.2	50.0	71.4	25.0	50.0	100.0	100.0	57.8
Britannia	66.7	30.0	71.4	25.0	33.3	88.9	100.0	57.3
TISCO	66.7	30.0	71.4	75.0	16.7	77.8	66.7	57.3
Dr Reddys Lab	55.6	50.0	21.4	37.5	50.0	100.0	100.0	57.2
Hoechst Marrion	55.6	20.0	64.3	37.5	50.0	83.3	100.0	56.6
State Bank of India	44.4	40.0	78.6	75.0	50.0	33.3	83.3	56.5
Ranbaxy	44.4	50.0	42.9	50.0	33.3	100.0	83.3	56.4
Corporation Bank	44.4	40.0	78.6	75.0	50.0	27.8	83.3	55.7
Tata Tea	44.4	40.0	71.4	25.0	33.3	88.9	100.0	55.5
Indian Hotels	55.6	60.0	28.6	37.5	66.7	83.3	50.0	54.7
Bajaj Auto	44.4	60.0	21.4	50.0	33.3	88.9	100.0	54.7
BSES	44.4	30.0	71.4	62.5	33.3	77.8	66.7	54.6
BFL Software	66.7	50.0	35.7	75.0	33.3	33.3	100.0	54.1
Bank of Baroda	44.4	40.0	78.6	75.0	50.0	27.8	66.7	54.0
IPCL	66.7	30.0	21.4	75.0	33.3	77.8	83.3	54.0
BHEL	55.6	10.0	78.6	62.5	33.3	83.3	50.0	53.5
VSNL	33.3	10.0	64.3	37.5	66.7	88.9	83.3	53.4
Grasim Industries	66.7	60.0	35.7	62.5	50.0	44.4	50.0	52.9
Satyam	55.6	50.0	35.7	75.0	33.3	44.4	83.3	52.4
Bank of India	33.3	40.0	78.6	75.0	50.0	27.8	66.7	52.4
Asian Paints	55.6	50.0	21.4	25.0	33.3	94.4	100.0	52.0
Reliance Petroleum	100.0	20.0	28.6	75.0	50.0	22.2	66.7	51.0

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India companies sorted by CG

Company name	Discipline 15%	Transp. 15%	Indep. 15%	A/cability 15%	Resp. 15%	Fairness 15%	Social 10%	Wgtd avg 100%
Siemens	44.4	10.0	78.6	62.5	33.3	77.8	50.0	51.0
IOC	66.7	10.0	21.4	75.0	33.3	77.8	83.3	51.0
MTNL	33.3	10.0	64.3	37.5	66.7	83.3	66.7	50.9
EIH	55.6	40.0	28.6	37.5	66.7	77.8	50.0	50.9
Sun Pharma	44.4	50.0	14.3	25.0	50.0	88.9	100.0	50.9
Hindalco	77.8	40.0	21.4	50.0	16.7	88.9	66.7	50.9
Telco	44.4	40.0	21.4	50.0	33.3	94.4	83.3	50.9
Madras Cement	55.6	50.0	21.4	50.0	50.0	77.8	50.0	50.7
Wockhardt	44.4	50.0	14.3	25.0	50.0	83.3	100.0	50.1
Cummins India	33.3	30.0	21.4	87.5	33.3	83.3	66.7	50.0
GAIL	44.4	20.0	71.4	25.0	50.0	77.8	66.7	50.0
ONGC	66.7	10.0	14.3	75.0	33.3	77.8	83.3	49.9
M&M	22.2	50.0	14.3	62.5	33.3	94.4	83.3	49.9
Tata Infotech	33.3	30.0	35.7	62.5	16.7	83.3	100.0	49.2
Gujarat Ambuja	55.6	50.0	21.4	50.0	33.3	77.8	50.0	48.2
Burroughs Well	55.6	30.0	64.3	37.5	33.3	33.3	100.0	48.1
Nicholas Piramal	33.3	40.0	14.3	25.0	50.0	88.9	100.0	47.7
Zee Telefilms	66.7	30.0	28.6	50.0	33.3	77.8	33.3	46.3
Sterlite Industries	66.7	50.0	21.4	25.0	16.7	83.3	66.7	46.1
Nalco	33.3	10.0	64.3	50.0	33.3	77.8	50.0	45.3
SKB Pharma	55.6	30.0	14.3	50.0	50.0	33.3	100.0	45.0
McDowell's	55.6	20.0	14.3	25.0	33.3	83.3	100.0	44.7
United Breweries	55.6	20.0	14.3	25.0	33.3	83.3	100.0	44.7
SSI Ltd	55.6	30.0	35.7	62.5	16.7	33.3	83.3	43.4
Television Eighteen	33.3	40.0	21.4	50.0	33.3	88.9	33.3	43.4
ACC	33.3	50.0	35.7	62.5	33.3	27.8	50.0	41.4
Pfizer India	66.7	20.0	14.3	37.5	33.3	33.3	100.0	40.8
Aptech	55.6	30.0	28.6	50.0	16.7	33.3	83.3	40.5
Silverline	33.3	40.0	28.6	50.0	33.3	27.8	83.3	40.3
HFCL	22.2	30.0	14.3	50.0	16.7	72.2	83.3	39.1
Novartis India	55.6	20.0	14.3	37.5	33.3	33.3	100.0	39.1
Average	**56.81**	**38.38**	**50.89**	**53.75**	**42.92**	**73.33**	**82.29**	**55.6**

[1] Sterlite Optical Technologies was incorporated as a separate company only in October 2000 and is in the process of putting in place these systems. There is little history available to provide a meaningful response to most questions and hence the company has been omitted from our list. Source: CLSA Emerging Markets

Patterns in the scores – India

	Question	"Yes" score in in country sample (%)	Comments
1	Explicit public statement placing a priority on CG	47.5%	With the rising importance of good CG, the number of companies articulating "mission statement" is on the rise. Starting April 2001, companies are also mandatorily required to publish, in their annual reports, a section on corporate governance. Infosys, Wipro, NIIT, HDFC Bank, HDFC, ICICI, ICICI Bank, Gujarat Ambuja, Siemens, L&T, Asian Paints, Brittania, Cadbury, HLL, Nestle are among the companies which have made such explicit statements.
2	Management incentivised towards a higher share price	52.5%	Except for successful family run companies and software companies (which have ongoing ESOP schemes), senior management of other companies have little incentive to work towards higher share prices. In most cases, remuneration is linked to profits earned, but not to market capitalisation. Over the past 3 years, market caps of PSUs have halved, due to management apathy to share prices.
3	Sticking to clearly defined core businesses	88.8%	Moving away from the legacy of the "licence raj", companies are now increasingly focussing on core businesses. The Aditya Birla group had taken a lead in this direction, by getting out of its non-core businesses and re-aligning the businesses of its companies. For Telco, diversification into passenger car business has turned out to be a big drag on its earnings.
4	Having an appropriate estimate of cost of equity	31.3%	Only about a third of the Indian companies commented on their "cost of equity", which was close to our CAPM based estimate. Among these are Reliance Industries, NIIT, Infosys, HCLT, Hughes Software, HDFC Group, ICICI Group, HLL, Grasim and Zee.
5	Having an appropriate estimate of cost of capital	27.5%	Only about a third of the Indian companies gave indications of a "cost of capital" close to our estimate.
6	Conservatism in issuance of equity or dilutive instruments	73.8%	Most Indian companies have not issued equity, or warrants for new equity, for acquisitions and/or financing new projects in a way that raised controversy. The exceptions are M&M, Punjab Tractors, Zee, ACC, HFCL, Silverline, Dr Reddy's and SSI.
7	Ensuring debt is manageable, used only for projects with adequate returns	72.5%	A majority of the Indian companies use debt prudently. TELCO, M&M, ACC, Gujarat Ambuja, Tata Tea and HFCL are among the few exceptions.
8	Returning excess cash to shareholders	72.5%	Nearly a quarter of the Indian companies have allowed cash build up through retained earnings (resulting from lower dividend payouts) to bring down ROEs. HLL, Infosys are notable companies with high cash balances. Castrol is the prime example of a company which pushed up its ROE by paying out all its surplus cash.
9	Discussion in Annual Report on corporate governance	46.3%	Most Indian companies do not have a section on corporate governance in their annual reports. The companies that have the same, are largely those that have started complying with the recommendations of the Kumar Mangalam Birla Committee (KB committee). Starting this year, a large majority of the Indian companies would include this section.
10	Disclosure of financial targets, eg 3-5 year ROA/ROE	8.8%	Less than one tenth of the Indian companies provide financial targets publicly. Among the companies that do so are Sterlite, Reliance, Cipla and Ranbaxy.

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Patterns in the scores – India (continued)

	Question	"Yes" score in country sample (%)	Comments
11	Timely release of Annual Report	83.8%	Most Indian companies publish their Annual reports in time. Exceptions are public sector companies, which are required to get their financial performance re-audited by the government.
12	Timely release of semi-annual financial announcements	7.5%	Publication of semi-annual reports is not mandatory, though half-yearly earnings have to be reported. Companies which do this voluntarily are Infosys and Satyam.
13	Timely release of quarterly results	5.0%	Publication of quarterly reports is not mandatory, though quarterly earnings have to be reported. Companies which do this voluntarily are Infosys and Satyam.
14	Prompt disclosure of results with no leakage ahead of announcement	78.8%	All Indian companies announce their results within two working days from the board meeting. However, in some cases, we have seen substantial stock price movement prior to the results being made public.
15	Clear and informative results disclosure	12.5%	Annual reports of most Indian companies are clear and informative. However, as consolidated accounting is not mandatory under Indian GAAP, most Indian companies do not do so. Only one eighth of the Indian companies provide consolidated accounts and a majority of these are companies that have been involved in equity raising in the US markets. Indian GAAP is now being modified to make consolidated accounted mandatory starting next financial year.
16	Accounts presented according to IGAAP	13.8%	Only Indian companies with ADRs (or have ADRs in pipeline) present their accounts in line with IGAAP. This companies include Infosys, HCLT, Wipro, and Silverline.
17	Prompt disclosure of market sensitive information	38.8%	Most Indian companies fall short of reporting market sensitive information punctually.
18	Accessibility of investors to senior management	67.5%	Access to senior management has been on the rise. A majority of the companies hold analysts meets, conference calls and are open to periodic meetings with investors. Reliance, Infosys and Wipro lead the pack. MNCs, however, do not have a good score.
19	Web-site where announcements updated promptly	65.0%	More than half the Indian companies promptly update their web-site with announcements and financial performance details
20	Board and senior management treatment of shareholders	52.5%	Less than half the companies in our Indian sample have made decisions that have benefited the majority shareholders, the board and/or the senior management. These companies include, ITC, ACC, Gujarat Ambuja and Indian Hotels.
21	Chairman who is independent from management	16.3%	Very few Indian companies have a chairman who is an independent and non-executive director. Among these are ACC, Siemens, L&T and Castrol.
22	Executive decisions by management committee comprised differently from Board	50.0%	In half of the Indian companies in our sample, there is a presence of an executive or management committee.
23	Audit committee chaired by independent director	67.5%	As Indian companies start complying with the mandatory recommendations of the KB committee, this ratio will improve. We expect significant improvement in the next year itself.

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Patterns in the scores – India (continued)

	Question	"Yes" score in in country sample (%)	Comments
24	Remuneration committee chaired by independent director	32.5%	Less than a third of the Indian companies have a remuneration committee. These companies include all the software companies, Reliance, Ranbaxy, Sterlite, Castrol, HLL, ITC, & L&T.
25	Nominating committee chaired by independent director	5.0%	Only four of the Indian companies in our universe have a nominating committee. These are Infosys, ITC, SSI and L&T.
26	External auditors unrelated to the company	100.0%	In all the Indian companies, the external auditors of the company are unrelated to the company.
27	No representatives of banks or other large creditors on the Board	73.8%	A majority of the companies in India do not have direct representatives of banks and/or large creditors on their Board. In fact, gearing levels of Indian companies have been low.
28	Board plays a supervisory rather than executive role	40.0%	In less than half of the companies in our sample, is the executive committee substantially different from the Board.
29	Non-executive directors demonstrably independent	25.0%	Only one quarter of the companies have non-executive directors who are demonstrably independent. Apart from PSUs, this list includes HDFC, Grasim, Indian Hotels, Infosys and EIH.
30	Independent, non-executive directors at least half of the Board	50.0%	About half of the Indian companies have Boards that are constituted with the number of non-executive directors being 50% or above of the total size. This requirement has now been made mandatory by the KB committee and we expect this ratio to improve significantly going forward.
31	Foreign nationals presence on the Board	28.8%	Less than a third of the Indian companies have foreign nationals on their Board. These companies include, Infosys, HCLT, Hughes Software, Mphasis-BFL, Telco, Cadbury, M&M, Cummins Hero Honda, etc.
32	Full Board meetings at least every quarter	100.0%	Indian companies are required by statue to hold a Board meeting every quarter.
33	Board members able to exercise effective scrutiny	100.0%	Board members of all Indian companies are well briefed before the meetings.
34	Audit committee that nominates and reviews work of external auditors	36.3%	Based on recommendations of the KB committee, the Audit committee would be empowered to do so.
35	Audit committee that supervises internal audit and accounting procedures	50.0%	All Indian companies that have Audit committee, empower the committee to supervise the work of the internal auditors. Further, this empowerment would be made necessary by the recommendations of the KC committee.
36	Acting effectively against individuals who have transgressed	87.5%	In a majority of the cases in India, Board/senior management that have made decisions that benefit them at the expense of shareholders, have been penalised.
37	Record on taking measures in cases of mismanagement	8.8%	Very few Indian companies have a track record of taking effective measures in the event of mismanagement.
38	Measures to protect minority interests	35.0%	A little over one third of the companies does the Board/ senior management take measure in the interest of all shareholders. Among the companies that do not do so are largely the PSUs, the MNCs and private companies where the promoter has dominant holding.

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Patterns in the scores – India (continued)

	Question	"Yes" score in in country sample (%)	Comments
39	Mechanisms to allow punishment of executive/management committee	35.0%	Only a third of the Indian companies in our sample have laid out mechanisms that allow punishment of the executive / management committee in the event of mismanagement.
40	Share trading by board members fair and fully transparent	17.5%	In only fourteen companies is the share trading by the board members fully transparent. A majority of these companies are companies with international (US) listing.
41	Board small enough to be efficient and effective	73.8%	The size of the Board for the Indian companies ranges between 5-20 with the average being 11. A majority of the companies with over 12 members on the Board are companies that are part of large Industry houses and/or Banks/FIs.
42	Majority shareholders treatment of minority shareholders	76.3%	In some case, we believe, that the decisions by the management has been favorable to the objectives of the majority shareholders. Most of these companies are PSU's where the government's social objectives have been given a priority over commercial objectives of the firm, or companies where the promoters are dominant shareholders.
43	All equity holders having right to call General Meetings	100.0%	In India, all equity shares that are issued give the right to the shareholder fall calling General Meetings.
44	Voting methods easily accessible (eg through proxy voting)	100.0%	Voting methods in India are accessible as it includes proxy voting and voting by ballot.
45	Quality of information provided for General Meetings	93.8%	In most cases, the necessary information is provided at General Meetings.
46	Guiding market expectations on fundamentals	46.3%	The record of management seeking to ensure that the market value reflects fundamentals is mediocre.
47	Issuance of ADRs or placement of shares fair to all shareholders	85.0%	Most Indian companies in our universe have been prudent while issuing depository receipt or shares.
48	Controlling shareholder group owning less than 40% of company	35.0%	Majority shareholders hold over 40% of the equity, in over three foruth of the Indian companies in our universe.
49	Portfolio investors owning at least 20% of voting shares	26.3%	Those companies that have at least 20% of their equity in the hands of professional portfolio managers include Infosys, L&T, Asian Paints, HLL, and ITC.
50	Priority given to investor relations	75.0%	A majority of the Indian companies have now set up active investor relations cell.
51	Total Board remuneration rising no faster than net profits	72.5%	In nearly a quarter of the Indian companies has the growth in remuneration to directors outpaced the growth in net profits. Indian companies pay their Board between 0.1-3% of their net profits, as remuneration.
52	Explicit policy emphasising strict ethical behaviour	53.8%	Nearly half of the Indian companies have public policy statements that emphasize strict ethical behaviour.
53	Not employing the under-aged	100.0%	All companies under our coverage have a culture/policy of not employing the underaged.
54	Explicit equal employment policy	90.0%	Nearly all the Indian companies have policies of equal employment. However, some companies in the public sector have quotas for employment of personnel from the deprived tribes or castes, based on government policies.
55	Adherence to specified industry guidelines on sourcing of materials	75.0%	Over three fourths of the Indian companies adhere to specified industry guidelines on sourcing of materials.
56	Explicit policy on environmental responsibility	81.3%	Majority of the Indian companies are environmentally conscious.
57	Abstaining from countries where leaders lack legitimacy (Myanmar)	95.0%	Very few Indian companies have direct or indirect operations in Myanmar.

Source: CLSA Emerging Markets

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Indonesia – Picking up the signal

High CG BUYs/Low CG SELLs

Company	CG Score (%)	Re-rating drivers
High CG BUYS		
Unilever Indonesia	64.9	Decision on the company's growing cash mountain – whether to expand through acquisition or return the cash to shareholders. We foresee a bit of both. BUY.
Indosat	50.9	Completion of mobile restructuring deal, which will migrate business platform towards fast-growing mobile sector and away from ILD. BUY.
Ramayana	46.6	Confirmation that new store openings outside of Java are well received. Evidence that the future growth strategy of regional diversification has been successful. BUY.
Gudang Garam	44.9	New product launch targeted at the fastest growing segment of the tobacco market – light kretek. Evidence of a shift back to machine-rolled kretek (SKM). BUY.
Low CG SELLs		
Indocement	13.9	Impending rights issue which will substantially dilute existing minority shareholders and reduce free float to less than 10%. SELL.
Indah Kiat	18.4	Disappointment surrounding terms of debt restructuring proposals and a realisation that existing minority shareholders face substantial dilution risks. SELL.
Semen Gresik	33.3	The possible spin-off of Semen Padang and Semen Tonasa by year-end which will leave the company a shell of its former self. Compensation may also be handed directly to the shareholders rather than the company itself. SELL.
Lippo Bank	32.4	Burdened with Rp1.5tr in NPLs, 36% of loans, the group must slash this to 5% by year-end under central bank guidelines which implies heavy write-offs and further loan loss provisioning. SELL.

Source: CLSA Emerging Markets

Latest CG developments

Country ratings for macro determinants of CG

	Rating (1-10)
Rules and regulations	4
Enforcement and regulation	2
Political/regulatory environment (ie, interference)	5
Adoption of IGAAP	4
Institutional mechanisms and CG culture	2

Source: CLSA Emerging Markets

Adopting better CG standards is the new catch phrase for corporate Indonesia

As share prices continue to slide, CG is becoming the new catch phrase for corporate Indonesia. Companies view adherence to good CG practices as the salvation to poor share-price performance. Yet when one considers that the most popular application has been the introduction of employee-share schemes it perhaps indicates where the true interest lies. By and large, independent directors (and indeed any director who considers their role to be a protector of minority rights) are few and far between. Yet even modest steps are laudable given the atrocious track record of Indonesian companies towards minority shareholders over the years.

Regulators are also introducing more stringent guidelines . . .

Regulators are also getting in on the act. The capital market supervisory agency, BAPEPAM, is drawing up rules stipulating that companies must have at least three directors and a maximum of seven. At present many firms have only two commissioners, BCA for instance. At the same time, the Jakarta Stock Exchange passed a new ruling last July which required 1) at least 30% of all commissioners to be independent, 2) the creation of an audit committee, and 3) a corporate secretary. As always the devil is in the details. Because the guidelines have not specified what qualifies as independent, it has enabled some firms to break the spirit, if not the letter, of the law by appointing directors who are affiliated to the group although not directly employed by the company.

. . . but implementation is important and there is still much more to be done to regain the trust of minority investors

Consequently, regulators still have a lot to do to gain the trust of investors that their rights will be protected. Other possible measures yet to be addressed include requiring companies to:

- disclose the total remuneration paid to the board of directors,
- disclose share transactions by directors,
- place a greater level of fiduciary duty on corporate directors.

Best and worst in recent CG events

Lippo Group has caused consternation with minority shareholders over its plans for Matahari

Although the operating performance of Matahari has never looked better, the company's valuation has always lagged that of its peers, primarily because of concerns surrounding its parent Lippo group which has an infamous track record with Indonesian investors regarding its attitude towards minority shareholder rights. These concerns were heightened when the company's finance director, who was viewed as promoting better CG standards, resigned. Subsequently, the company announced that it would raise its stake in LippoShop.com, an internet-based home delivery service of consumer goods, to around 50% from 10%. However, the company indicated that it was acquiring the additional stake from Lippo Group at a price that was three times the cost of the original investment – this is despite the decimation in internet valuations that has occurred in recent months. The stock has fallen 11% in the past three months and now trades at 4.5x FY01 PE.

Indofood has learned a lesson on the virtue of transparency

Indofood has struggled to overcome a perception that the group's rising cash will be stripped out through the acquisition of related party interests. However, management has made a concerted effort in recent months to signal to minority shareholders that the ways of the past will not be the way of the future. The message was beginning to get through. Until February, the company's stock price was up more than 50%. However, when the full-year results were released in March it transpired that the parent company had placed Rp489bn (US$49m) in deposit with Bank Danamon to guarantee a loan facility to various plantation companies under the control of IBRA. Indofood's plans to buy the plantation assets were scotched, however, when the government banned business families from acquiring IBRA assets while it still owes earlier debts to the government. But the company's failure to fully disclose the transaction to shareholders lead to minority investors wiping out US$70m in shareholder value in the days subsequent to the deal being announced – more than the value of the funds at risk.

Companies with CG upside potential

Company	CG Score (%)	Events that could change CG score
Indofood	24.9	❏ The appointment of two independent non-executive commissioners who are expected to play an important role in protecting the rights of minority shareholders. ❏ The creation of an independent audit committee to review group strategy and address the concern that Indofood may acquire related party assets at inflated prices. ❏ Restructuring businesses to improve transparency and remove interlocking corporate holdings.
Bank Central Asia	32.1	❏ Management expected to assert greater independence now removed from the Salim group of companies.
Bimantara	34.9	❏ Divesting non-core assets to sharpen corporate structure around media, logistics and transportation. ❏ Management desires to distance itself from former First Family control and improve institutional mechanisms surrounding the decision making process.

Source: CLSA Emerging Markets

Companies with CG downside risk

Company	CG Score (%)	Events that could change CG score
Telkom	42.9	❏ To meet government objectives on industry restructuring, Telkom could acquire mobile and KSO assets on non-economic criteria. ❏ As the primary investment arm for the government in the telco sector, the company must balance its social objectives with the need to generate a market return for minority shareholders.
Ramayana	46.6	❏ Ramayana is a retailer with a reputation for treating minority shareholders fairly. Recently, because many property developers are still devastated from the economic crisis, the firm has begun to develop its own stores through an affiliate firm owned by majority shareholders. ❏ Without proper disclosure and open transparency surrounding contract details it is possible that value could be seen to be transferred to the affiliate company at the expense of Ramayana and minority shareholders.

Source: CLSA Emerging Markets

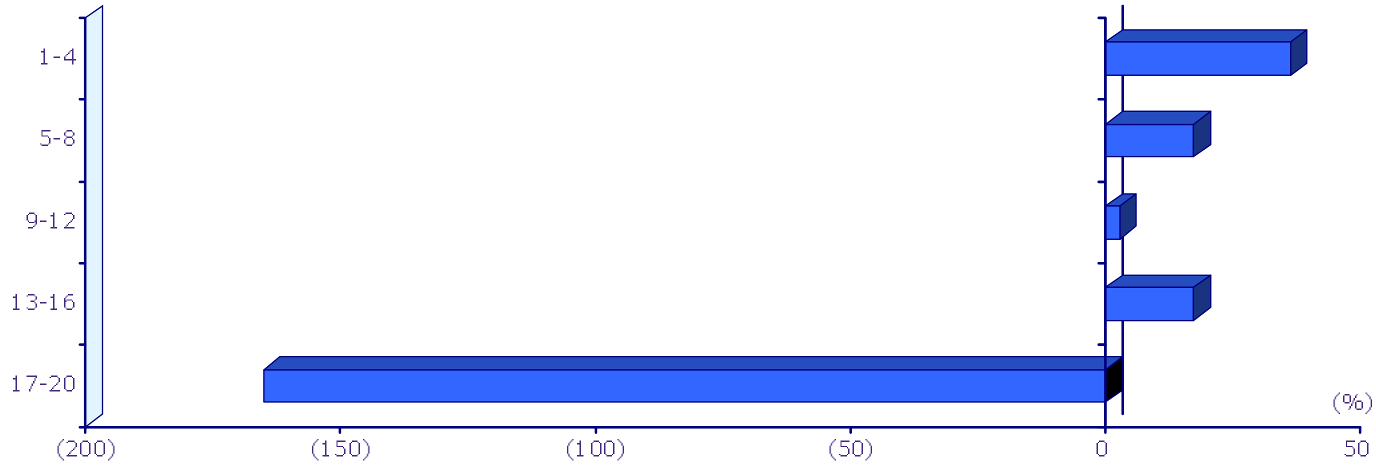
CG and financial performance

CG to ROCE, ROE and EVA™ for Indonesia sample

	Quartile CG ranking				Average of
	Top	Second	Third	Bottom	Country basket
ROCE (%)	110.2	26.6	15.6	8.2	46.5
ROE (%)	36.3	17.5	0.4	(102.2)	(3.1)
EVA™/invested capital (%)	39.2	14.7	0.3	(0.3)	16.0

Source: CLSA Emerging Markets

CG rankings to ROE (%)



Source: CLSA Emerging Markets

- Companies with better CG scores tend to create more value for shareholders, though it is difficult to point to a more precise causal relationship.
- The average ROCE for our sample of Indonesian companies is 46.5%. However, the top quartile of companies had an average ROCE of 110.2% while the bottom quartile had an average ROCE of 8.2%.
- A similar relationship exists for ROE. The top quartile of companies generated a ROE of 36.3% in FY00 against a country average of -3.1%. However, this is pulled down by the substantial loss of Indocement. Excluding this, the Indonesian sample average would be 18%.
- For EVA™/IC, the simple average for the country basket of stocks was 16%. The top decile had an average of 39% while the bottom decile had an average of -0.3%.

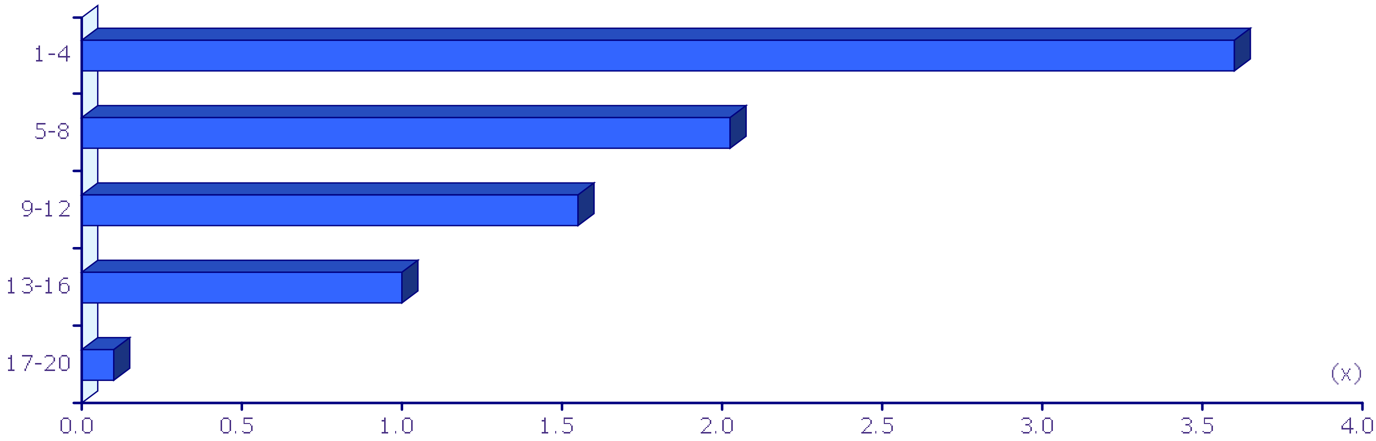
CG and valuations

CG to PE and PB for Indonesia sample

	Quartile CG ranking				Average of
	Top	Second	Third	Bottom	Country basket
FY01 PE (x)	9.3	5.3	9.0	3.3	7.4
FY00 PB (x)	3.5	1.6	1.2	1.0	2.0

Source: CLSA Emerging Markets

CG rankings and PB



Source: CLSA Emerging Markets

- Companies with better CG scores have higher valuations, although other factors undoubtedly also play a part in determining valuations.
- Although a correlation with PE can be seen, the most striking relationship can be noticed with regard to PB. The average for our Indonesian sample of companies is 2.0x PB. However, the PB for the top quartile is 3.5x while the valuation attached to the lowest quartile is only 1.0x BV. The high PB for the top decile is also partly due to the high ROE they are able to generate.
- The variation on a PE basis is much closer. Measured on PE, the simple average for our basket of stocks is 7.4x of this year's earnings. The PE multiple for the top quartile was only slightly higher at 9.3x, while the lowest quartile trades at 3.3x FY01 earnings.
- The companies in the lowest quartile – Kalbe Farma, Indofood, Indocement and Indah Kiat – trade at a noticeable discount relative to the market.

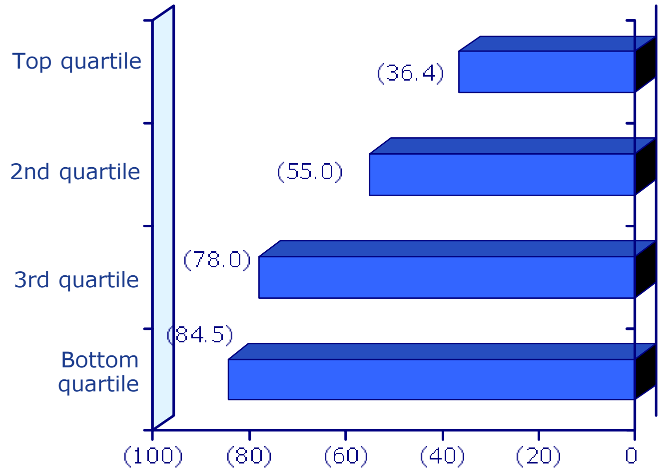
CG and share-price performance

Share-price returns (US$) to end-2000

	Quartile CG ranking				Average of
	Top	**Second**	**Third**	**Bottom**	**Country basket**
1-year share-price performance	(35.0)	(52.1)	(51.4)	(68.3)	(50.7)
3-year share-price performance	(46.7)	(77.5)	(91.6)	(81.6)	(71.5)
5-year share-price performance	(36.4)	(55.0)	(78.0)	(84.5)	(61.4)

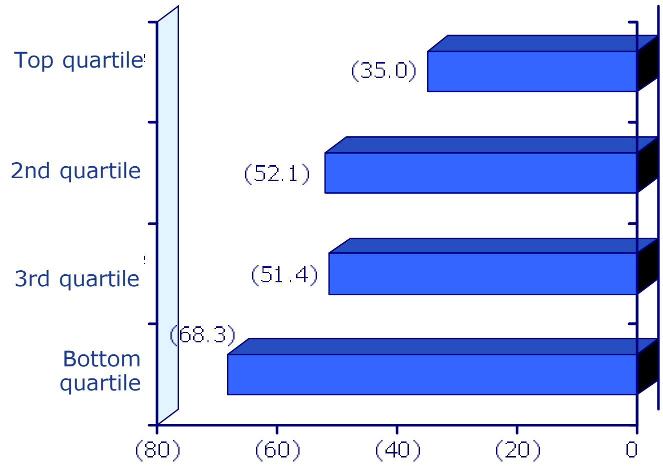
Source: CLSA Emerging Markets

CG ranking and five-year share-price performance



Source: CLSA Emerging Markets

CG ranking and one-year share-price performance



Source: CLSA Emerging Markets

- The most striking point is the shocking performance of Indonesian shares for foreign investors on either a one-, three- or five-year time horizon. This is largely (although not solely) a result of the precipitous decline in the currency which is down to a quarter of its original value since 1997.
- Nevertheless, companies with good CG have clearly outperformed in US$ terms on a one-, three- and five-year time horizon. On average, those firms in the top quartile of CG have consistently outperformed share prices for the bottom quartile. The relationship is clear: the better the CG practice, the better the share-price performance.
- In our sample basket of stocks, the simple average share-price performance was -51% in US$ terms for 2000. The top quartile outperformed this measure substantially, with prices declining by 35% on average, while that of the bottom quartile plunged by 68% last year.
- Over the past three years the average return in US$ terms was -71% for the companies in our sample. The top quartile of stocks fell on average 47% over the same period, with the best performance coming from Unilever Indonesia which is down only 13% in US$ terms over the past three years. For the bottom quartile, however, share prices have plummeted 82% in the same period - outmatched only by firms in the third quartile, which have seen prices collapse 92% over the past three years. Shareholders in Lippo Bank have seen the bank's stock price decline 99.5% in the past three years.
- Over the past five years, share prices for companies in our basket of stocks have declined by an average of 61% in US$ terms. At the bottom of the heap, however, share prices of companies in the lowest CG quartile of scores have dropped by an average 85% in US$ terms, while share prices of firms with the best CG scores declined by less than half that, at only 36%.

Indonesia companies sorted by CG

Company name	Discipline 15%	Transp. 15%	Indep. 15%	A/cability 15%	Resp. 15%	Fairness 15%	Social 10%	Wgtd avg 100%
Unilever Indonesia	77.8	60.0	64.3	25.0	66.7	83.3	83.3	64.9
Indosat	44.4	80.0	28.6	25.0	66.7	72.2	33.3	50.9
INCO Indonesia	22.2	80.0	14.3	37.5	50.0	66.7	100.0	50.6
Ramayana	66.7	60.0	14.3	25.0	33.3	88.9	33.3	46.6
Gudang Garam	44.4	50.0	64.3	12.5	50.0	66.7	16.7	44.9
Telkom	33.3	60.0	28.6	25.0	33.3	72.2	50.0	42.9
Astra International	33.3	60.0	7.1	25.0	16.7	100.0	33.3	39.7
HM Sampoerna	33.3	60.0	14.3	25.0	33.3	77.8	0.0	36.6
Tempo Scan	33.3	60.0	14.3	12.5	33.3	66.7	33.3	36.4
Astra Otoparts	44.4	60.0	14.3	25.0	50.0	22.2	33.3	35.7
Bimantara	44.4	60.0	21.4	12.5	33.3	27.8	50.0	34.9
Semen Gresik	44.4	30.0	21.4	37.5	33.3	22.2	50.0	33.3
Lippo Bank	22.2	60.0	14.3	25.0	33.3	38.9	33.3	32.4
Bank Central Asia	33.3	80.0	21.4	12.5	16.7	38.9	16.7	32.1
Kalbe Farma	11.1	60.0	7.1	12.5	33.3	77.8	16.7	31.9
Indofood	22.2	50.0	14.3	12.5	33.3	22.2	16.7	24.9
Indah Kiat	22.2	40.0	14.3	12.5	0.0	11.1	33.3	18.4
Indocement	11.1	20.0	21.4	12.5	0.0	5.6	33.3	13.9

Source: CLSA Emerging Markets

Patterns in the scores – Indonesia

	Question	"Yes" score in in country sample (%)	Comments
1	Explicit public statement placing a priority on CG	16.7%	Very few Indonesian companies have explicitly stated what their mission goal is; firms with ADR listings would be the obvious exception. Most companies, however, have verbally committed themselves to improve corporate goverance standards.
2	Management incentivised towards a higher share price	11.1%	As in most other Asian countries, management is often related to the controlling shareholder.
3	Sticking to clearly defined core businesses	77.8%	Indonesian companies have vastly improved in this area. Bimantara, for instance, is divesting itself of may of its assets to focus on media, transport and telecoms.
4	Having an appropriate estimate of cost of equity	61.1%	Generally, the cost of equity was estimated to be between 18%-20%. This closely resembles our own CAPM estimates. However, there is still a sizeable (though shrinking) body of companies which have not given any consideration to minimum equity returns.
5	Having an appropriate estimate of cost of capital	55.6%	For the most sound companies, WACC has actually risen in recent months as gearing has been reduced and greater reliance is placed on equity as the primary avenue of funding. Hence, WACC closely approximates the cost of equity.
6	Conservatism in issuance of equity or dilutive instruments	44.4%	Pre-crisis, banks were been particularly susceptible to this practice, using equity to finance loan expansion. However, since 1997 this avenue has effectively been closed to most companies bar the most financially secure, which in any case, have little need for additional funding.
7	Ensuring debt is manageable, used only for projects with adequate returns	27.8%	As is now widely known, Indonesian companies had a fondness for US-dollar borrowing pre-crisis and investing the money in rupiah-denominated securities. Events proved the logic behind the process was fatally flawed, particularly with regard to the asset-liability and maturity mix.
8	Returning excess cash to shareholders	27.8%	Since 1997, many companies have consciously adopted a "cash heavy" policy which has proved sensible given the volatility in exchange rates and currency. However, there is a growing recognition that cash not used is cash wasted and more firms are increasing dividend payout ratios.
9	Discussion in Annual Report on corporate governance	0.0%	Not standard practice for most Indonesian companies.
10	Disclosure of financial targets, eg 3-5 year ROA/ROE	0.0%	No indonesian companies target specific ROE or ROE targets, although some (Unilever) do have implied growth targets (eg 20% revenue growth in the long-term).
11	Timely release of Annual Report	83.3%	Bappepam requirements stipulate audited financial results must be released four months after year end.
12	Timely release of semi-annual financial announcements	100.0%	Unaudied results are required to be submitted by Bappepam within 60-days after every quarter.
13	Timely release of quarterly results	100.0%	Unaudied results are required to be submitted by Bappepam within 60-days after every quarter.
14	Prompt disclosure of results with no leakage ahead of announcement	27.8%	Disclosure in this area leaves a lot to be desired. Result announcements can be opaque, board decisions even more so.

Continued next page

Patterns in the scores – Indonesia (continued)

	Question	"Yes" score in in country sample (%)	Comments
15	Clear and informative results disclosure	72.2%	Explanation of results are mostly sparse but SEC report requirements have begun to improve discussion on balance sheet movements. Generally, the telecom and media companies excel in this category.
16	Accounts presented according to IGAAP	22.2%	Only Telkom, INCO and Indosat which have ADR listings comply with IGAAP. However, Indonesian GAAP has been broadly modelled around US criteria, although aplpication and enforcement could be more stringent.
17	Prompt disclosure of market sensitive information	61.1%	A drastically higher share price for no particular reason is a good indicator of an impending news announcement. Although a growing porportion of firms recognise that investors should now be treated equally.
18	Accessibility of investors to senior management	72.2%	Consumer companies and telcos are the best, partly because of their ADR listing, but also because they have the least to hide and the most to gain.
19	Web-site where announcements updated promptly	33.3%	Few companies have web sites much less update for results and announcements regularly.
20	Board and senior management treatment of shareholders	11.1%	Almost all Indonesian companies are offenders in this category especially during the days of excess prior to the Asian crisis. One of the exceptions is locally listed subsidiaries of MNCs such as Unilever Indonesia. Property development was a favourite hobby along with the purchase of group/management related companies.
21	Chairman who is independent from management	22.2%	Companies with a chairman who does not hold a management position is rare.
22	Executive decisions by management committee comprised differently from Board	27.8%	Most Board of Directors are full of executive members, and although members of the Board of Commissioners are generally non-executive, Bappepam requires only two board members.
23	Audit committee chaired by independent director	5.6%	Audit committees are almost unheard of among Indonesian firms. Indofood is in the process of establishing such a committee, among the first blue chips to do so.
24	Remuneration committee chaired by independent director	0.0%	Not a standard practice and not required by Bappepam.
25	Nominating committee chaired by independent director	0.0%	As above
26	External auditors unrelated to the company	100.0%	The separation of the fidiciary duties of auditor and manager are well enforced.
27	No representatives of banks or other large creditors on the Board	77.8%	Generally no creditors sit in management or board positions except for some listed companies undergoing restructuring.
28	Board plays a supervisory rather than executive role	16.7%	Indonesia confuses the picture by having two Boards: the Board of Directors and the Board of Commissioners. Generally the BoD comprises senior management while the BoC comprises non-executive directors whose role is to ensure therights of shareholders. In practice, the BoC is a rubber stamp to the decisions made by the BoD.
29	Non-executive directors demonstrably independent	0.0%	Bappepam requires that two directors be non-executive, however the definition of non-executive (anyone not directly employed by the group) enables firms to comply in letter if not in spirit of the rule.

Continued next page

Patterns in the scores – Indonesia (continued)

	Question	"Yes" score in in country sample (%)	Comments
30	Independent, non-executive directors at least half of the Board	0.0%	No signs of this improving in the near future.
31	Foreign nationals presence on the Board	38.9%	Generally only if the firm is majority controlled by a foreign company. Indofood, Multi Bintang and Unilever Indonesia would be two examples.
32	Full Board meetings at least every quarter	100.0%	This is required of all companies by Bappepam.
33	Board members able to exercise effective scrutiny	11.1%	Mostly we were unable to contact an independent director who was willing to provide comments.
34	Audit committee that nominates and reviews work of external auditors	0.0%	We were mostly unable to contact an independent director who was willing to give comments.
35	Audit committee that supervises internal audit and accounting procedures	0.0%	As above
36	Acting effectively against individuals who have transgressed	38.9%	Whilst overall the picture does not look good, there have been a few bright spots: In 1999, Indosat sacked a former senior executive after misappropriating funds. On the flip side, evidence of dubious transactions by Telkom management was recently revealed by one of its KSO partners.
37	Record on taking measures in cases of mismanagement	22.2%	If any, offending managers are generally quietly removed; few such cases ever make the courts.
38	Measures to protect minority interests	27.8%	Shareholder approval for acquisitions is not required unless material, although most firms seek minorities support at EGMs - Lippo Group being the obvious exception.
39	Mechanisms to allow punishment of executive/management committee	27.8%	With no audit committees, there are few channels available. In any case, offending managers are generally quietly removed; few such cases ever make the courts.
40	Share trading by board members fair and fully transparent	0.0%	The score speaks for itself. Directors are not required under stock exchange rules to disclose share transactions.
41	Board small enough to be efficient and effective	88.9%	Generally, most BoC's have less than 6-7 members.
42	Majority shareholders treatment of minority shareholders	55.6%	Pre-crisis this was the exception, rather than the rule, although with share price performance so poor, there is much greater scrutiny. Lippo group's intention to sell it's e-commerce venture to Matahari shows that not all majority shareholders have leant from the past.
43	All equity holders having right to call General Meetings	77.8%	Generally yes, although the increase in non-voting instruments has lowered the overall score.
44	Voting methods easily accessible (eg through proxy voting)	77.8%	Yes, in most cases.
45	Quality of information provided for General Meetings	22.2%	Not generally. For instance, minority shareholders do not have the benefit of outside financial advice at an EGM on whether proposed deals are fair.
46	Guiding market expectations on fundamentals	44.4%	Generally the greater the foreign participation the more active management is in guiding expectations about fundamentals. Although many companies still use the worn-out phrase "market secrecy" to not dislose moer information to investors.

Continued next page

Patterns in the scores – Indonesia (continued)

	Question	"Yes" score in in country sample (%)	Comments
47	Issuance of ADRs or placement of shares fair to all shareholders	72.2%	Not much likelihood of this in the current market environment; many firms also completely missed out on the last peak in 1997.
48	Controlling shareholder group owning less than 40% of company	11.1%	This reflects that most blue-chips companies are majority controlled by either the government (Telkom, Indosat) MNC's (Unilever Indonesia) or prominent business families (Gudang Garam, HM Sampoerna).
49	Portfolio investors owning at least 20% of voting shares	38.9%	Foreign portfolio investors have generally adopted a passive attitude so far, preferring to engage management on only general CG issues.
50	Priority given to investor relations	83.3%	For most companies, the head of IR was also the CFO and also a board member.
51	Total Board remuneration rising no faster than net profits	33.3%	Not required to be disclosed by Bappepam.
52	Explicit policy emphasising strict ethical behaviour	16.7%	Non-existant in the past, but as more companies look to improve CG practices the more popular mission statements are becoming.
53	Not employing the under-aged	22.2%	Although illegal in the country, instances of "sweat-shop" employment is not uncommon (witness Nike's recent disclosure). If any, cigarette firms which employ vast numbers of women to hand-roll cigarettes would be the most at risk from similar accusations.
54	Explicit equal employment policy	33.3%	Like elsewhere in Asia, sexual discrimination is largely not a topic for discussion in a male-dominated business climate. This is even more so in Inodnesia's Islamic based society which de-emphasises the contribution of women.
55	Adherence to specified industry guidelines on sourcing of materials	38.9%	ISO accreditation is increasing popular. Almost all firms, particularly within the food industry, all apply for halal accreditation to comply with muslim requirements.
56	Explicit policy on environmental responsibility	16.7%	The low score here typifies the attitude of most companies towards the environment.
57	Abstaining from countries where leaders lack legitimacy (Myanmar)	94.4%	An indication of the extent to which most companies are domestically orientated.

Source: CLSA Emerging Markets

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Korea – Painful progress

High CG BUYs/Low CG SELLs

Company	CG Score (%)	Re-rating drivers
High CG BUYS		
Hite	55.2	Industry leader with improving financials and strong foreign partner fostering better management. BUY.
Koram	52.8	Cleanest balance sheet in the sector and foreign strategic shareholders. BUY.
Shinsegae	48.0	Defensive stock with growth potential in discount store segment with low penetration rate. BUY.
Korea Telecom	45.5	Privatisation should make room for improvement in CG. Broadband access business to provide growth superior to other service providers. Merger of its two mobile businesses should solidify synergy and market presence. BUY.
Low CG SELLs		
Hyundai Electronics	38.0	Enormous debt and high production cost in a down cycle. Technically insolvent. SELL.
Semco	38.3	Poor industry outlook and low margins. Behind other Samsung companies in investor relations. SELL.
Hanaro	40.7	Loss-making business model and constant need for new capital. SELL.
LG Electronics	40.7	Poor industry positioning, weak financials and costly diversification to telecoms. SELL.
Cheil Jedang	41.2	Investments in non-core business continues to keep returns low. Poor track record in management strategy execution and in fulfilling promises made investors SELL.

Source: CLSA Emerging Markets

Latest CG developments

Country ratings for macro determinants of CG

	Rating (1-10)
Rules and regulations	6
Enforcement and regulation	3
Political/regulatory environment (ie, interference)	3
Adoption of IGAAP	7
Institutional mechanisms and CG culture	2

Source: CLSA Emerging Markets

Bill likely to be passed by 1H01 to strengthen CG

On 20 November 2000, the Law Ministry finalised the bill to strengthen CG formulated with the advice of outside consultants and international experts on the issue. The bill is pending National Assembly approval and we expect the bill to be passed in 1H01. The salient provisions of the bill are:

1) A company must have approval from its shareholders for engaging in transactions greater than 20% of either annual revenue or total assets;

2) All listed companies are strongly encouraged to set up an external audit committee to provide independent assessment of corporate strategy and management practices;

3) The bill also urges all listed companies to increase the number of independent directors on the board from the current two-thirds of members to being composed exclusively of independent directors.

Retirement of shares might be allowed

The Securities Supervisory Commission is also looking to relax restrictions governing the retirement of shares. Current restrictions prohibit the retirement of existing shares by listed companies unless a strict set of pre-conditions are fulfilled, including a declaration of intent to retire the shares before purchase. These and other legislative proposals indicate that there is certainly pressure to improve CG, and some progress is being made.

Class action suits still not allowed

However, there are also serious setbacks to the efforts to improve the country's CG standing. The exclusion of cumulative voting in director nomination and legal framework permitting class action suits were left out of the recently finalised bill despite shareholder action groups lobbying and the suggestion of outside experts. The reason offered was that the country is not yet ready for such a permissive legal environment. Many view the ministry as having given in to lobbying pressure from corporate leaders.

Real transformation likely to take many years

A convincing transformation of the way of thinking among corporate managers and shareholders requires a generational shift that is likely to take many years. Korea has started to think about CG earnestly only in the past five years, and has made some progress. Although the pace of change has often disappointed, it is moving in the right direction given the pressure of the large presence of foreign funds in the market and the requirement of the companies to raise capital.

Best and worst in recent CG events

Samsung affiliates purchase internet investment holdings from Jae Yong Lee, son of group chairman

Cheil Communications, Samsung SDI and SEMCO announced that they would buy Jae Yong Lee's holdings in several internet companies. Lee is said to be selling his investments to avoid conflict of interest after becoming a managing director at Samsung Electronics, which in itself might have been construed a positive for CG. But that the sale was to other Samsung affiliates at a price that is rich in relation to peers amidst a global de-rating in internet company valuations raises serious CG issues. The market is now alerted to and alarmed over the potential for additional sales by Lee to other Samsung Group companies that might come in the future. Certainly, there will be objections, some of which could lead to legal challenges.

Partial application of law on corporate mismanagement

The Peoples Solidarity for Participatory Democracy have already brought a suit against the Samsung Group and Lee, who is the son of the present chairman of the Samsung Group last year. The suit was over the issuance and purchase of Samsung SDS convertible bonds by Lee at one-eighth of the prevailing market price. The suit was rejected by the Supreme Court and Lee continues to hold the convertible bonds. However, in a similar suit involving a smaller provincial company, the person involved was found guilty, raising questions over the apparent partial application of the law to favour larger groups. We nevertheless view the recent guilty verdict as a positive development in that it establishes a precedent for punishing such deeds by senior management.

SK Telecom under suspicion of improper affiliate transaction

In 1998, SK Telecom (SKT) entered into an outsourcing contract with SKC&C, a company whose majority shareholder is the president of SK group. After rejecting this initially, the independent directors gave this a conditional approval provided that SKC&C meet a number of requirements. The conditions were not fulfilled but the arrangement has remained intact. SKT pays an average 100bn won per year to SKC&C in consulting fees. The company is once again attempting to enter into a more comprehensive outsourcing contract with SKC&C over shareholder objections.

Corporate management opposing shareholder activism

Five business associations led by the Korea Federation of Industries (KFI) filed a joint public statement opposing the recent increase in shareholders activism led by the People's Solidarity for Participatory Democracy (PSPD) in March 2001. In their statement, the business leaders accuse shareholder action groups of magnifying the shortcomings of Korean corporate culture as viewed by foreign investors and transforming shareholder rights into a political issue for selfish gains. It also claims that too much shareholder activism reduces management efficiency and thus is negative for corporate shareholder value. The business community appears to be turning hawkish and we see likely greater organised opposition to increasing shareholder rights by the corporates, which will mean a zigzag path for the development of shareholder rights.

Headline punishment of former Daewoo Group management

In February 2001, the National Prosecutors Office issued a warrant for the arrest of nine former Daewoo Group senior managers including the former CEOs of Daewoo Motors and Daewoo Electronics. They will be prosecuted on charges of falsifying financial statements, not complying with regulations governing corporate external audit procedures and a breach of foreign exchange regulations. The office is also considering the extradition of Kim Woo Joong, the former chairman of the Daewoo group. A discrepancy of nearly 22tr won was found in the financial statement. We view this as a positive step in the direction of proper enforcement of the rules. However, follow-up investigations regarding the missing funds and their uses by the Prosecution Office will be watched for by the market as a whole.

Bank management becomes more independent

Although the point may be seen as controversial, we notice some real improvement in management independence amongst Korean banks, particularly those that have not been nationalised. Although recent loans were extended to the troubled Hyundai companies on the back of government pressure, banks are now much more focused on assessing risks and trying to remain independent of government influence. All the quality banks now have a significant foreign partner. That corporate liquidity for risky companies, now at its worst, is proof of greater discrimination in asset expansion by the banks.

No class action suits

Last November, the law ministry published a set of guidelines for improving CG. Although many recommendations in the guideline were positive, one critical provision that shareholder action groups were lobbying for – class action suits – was excluded. Initial indications from the ministry about allowing class action suits was positive, but during the process of soliciting additional expert opinion (from the corporate sector), the provision was omitted. Given the level of interest, this provision will quite certainly become an issue in the future, but it could take a few years yet before it comes into force.

Companies with CG upside potential

Company	CG Score (%)	Events that could change CG score
Shinhan Bank	44.1	❑ One of the quality banks that will be less impacted by corporate insolvency. ❑ Robust earnings growth ex-provisions. ❑ High likelihood of announcing a strategic tie-up with a major international bank in the near future. SELL.
Samsung Heavy	42.4	❑ Separated from the rest of the Samsung Group – more independent decision process possible. ❑ Loss-making investments have all been written off – proving that management wants transparency in financial outlook. BUY.
Hyundai Motor	41.8	❑ Recent actions, such as retirement of Kia Motor shares point to greater attention on shareholder value. ❑ Although a silent partner, Chrysler-Benz's influence will improve CG longer term. ❑ Now separated from the rest of the Hyundai group. LT BUY.

Source: CLSA Emerging Markets

Companies with CG downside risk

Company	CG Score (%)	Events that could change CG score
SK Telecom	49.5	❑ Proposal to continue business relationship with SKC&C (owned by SK Group chairman) indicate weak commitment to CG. ❑ Government-imposed market share reduction requirement to reduce growth prospects near term. ❑ Potential delay in forming a strategic partnership with an international service provider. BUY.
Kookmin Bank	49.5	❑ Relatively high exposure to Hyundai Group – more incentive to extend additional credit. ❑ Intolerant to negative analyst recommendations. ❑ Intense jockeying for position in the merging process with HCB – popularity important to senior management running up to the merger. SELL.
POSCO	49.5	❑ Ambitious diversification plan, but poor track record. ❑ Likely to maintain low dividend yield despite high cashflow. ❑ Difficulty is shedding bureaucratic mentality, even after becoming a private company. LT BUY.

Source: CLSA Emerging Markets

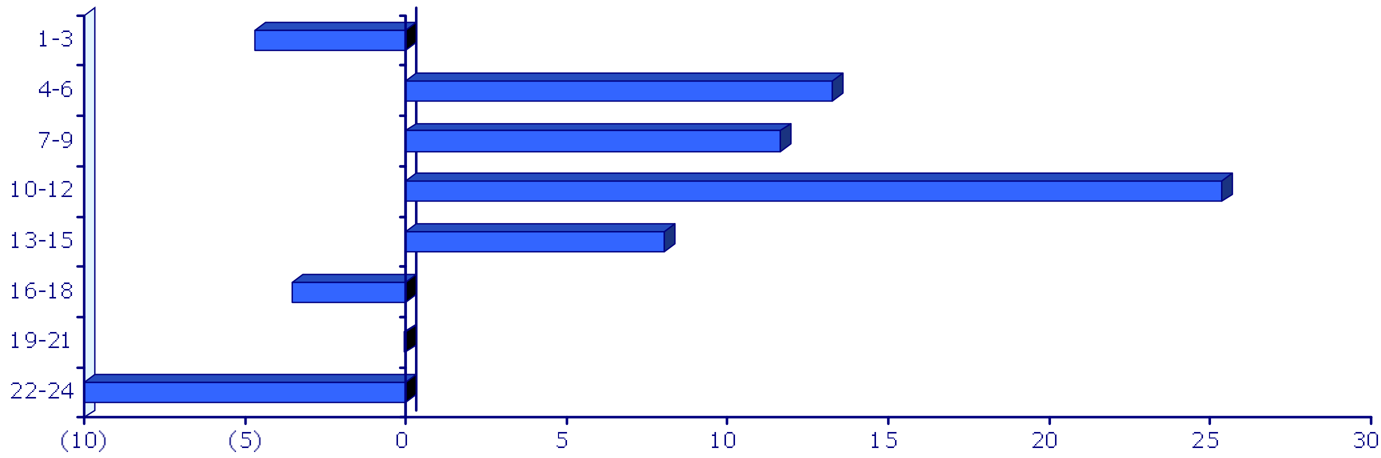
CG and financial performance

CG to ROCE, ROE and EVA™ for Korea sample

	Quartile CG ranking				Average of
	Top	Second	Third	Bottom	Country basket
ROCE (%)	(16.7)	10.7	11.8	0.2	1.5
ROE (%)	4.3	18.5	2.3	(5.0)	5.0
EVA™/IC (%)	(8.3)	1.6	1.8	(0.7)	(1.4)

Source: CLSA Emerging Markets

CG rankings and ROE (%)



Source: CLSA Emerging Markets

- In Korea, the companies/groups whose survival was threatened during the 1997 Asian crisis thus having to undertake real restructuring are ahead in level of awareness on CG issues. Within the top quartile for Korea, three of the six are banks (Housing & Commercial Bank, Koram Bank and Hana Bank) – the sector hardest hit by the crisis.
- Although the banks and consumer companies were forced by circumstances to move up the CG scale, banks still carrying a provisioning burden which has decimated their financial ratios in 2000 (the year used for financial comparatives in this report). However, longer term we expect the trend to reverse and for the companies with higher CG to also have financial ratios superior to the market averages, as seen in other markets.
- The correlation with financial returns is positive for the second through to the fourth quartiles ranked for CG. Some of the large blue chips fall under the second quartile, including **Samsung Electronics** and **Samsung SDI**. Taking out the banks whose immediate returns are affected by heavy restructuring and provisioning expenses, there is otherwise a good relationship between CG and financial returns.
- Intuitively, companies with commitment to high CG reflect better management, which should also mean higher levels of profitability. This is apparent, by contrast, in the constituents of the fourth quartile, **LG Electronics** and **Hyundai Electronics**.

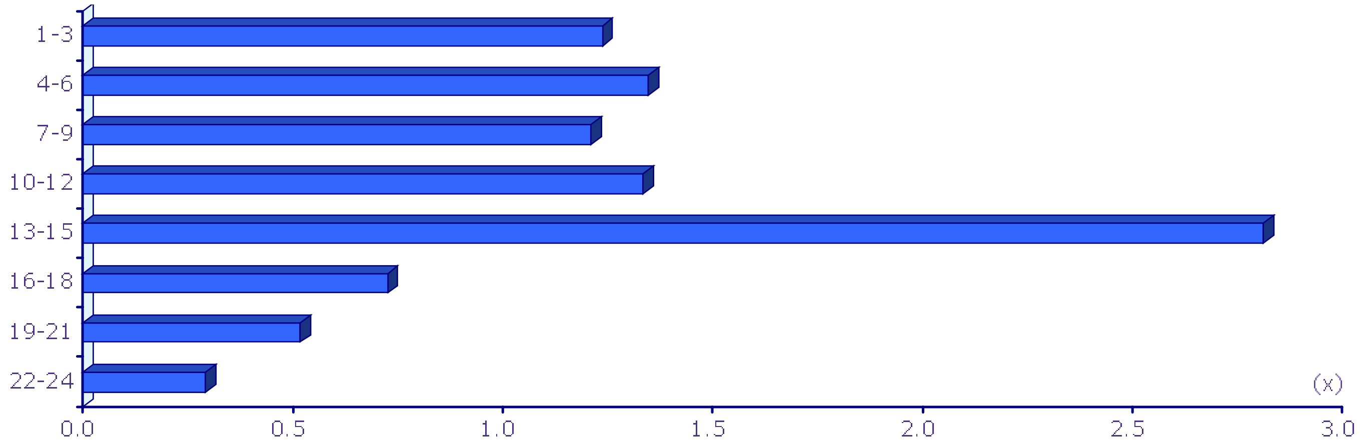
CG and valuations

CG to PE and PB for Korea sample

	Quartile CG ranking				Average of
	Top	Second	Third	Bottom	Country basket
FY01 PE (x)	8.2	11.2	30.7	3.2	13.4
FY00 PB (x)	1.3	1.3	1.8	0.4	1.2

Source: CLSA Emerging Markets

CG rankings and PB



Source: CLSA Emerging Markets

- On both earnings and asset-based valuations, there is no clear correlation with CG. Differences in sectoral valuations skew the relationship. For example, telecom companies with rare exceptions generally have a poor CG track record, yet their valuations are inflated relative to other sectors on growth expectations. For Korea, most telecom companies are categorised into the third quartile, resulting in higher valuations for that quartile.
- The second quartile also contains a number of TMT companies that raises the average valuations. Given the extraneous circumstances regarding the banks mentioned above, and the greater influence of sector valuations, we cannot expect the relationship between CG and valuations to be a tight one in Korea.
- However, companies in the lowest quartiles have much lower-than-market-average valuations, trading at less than half the Korea sample average for both PE and PB. Hanaro Telecom is deemed to have an unsustainable business model. LG Electronics is suffering from a mistimed foray into telecoms. Hyundai Electronics is technically insolvent due to inordinately high debt levels.
- The lack of an overall correlation and the existence of external factors skewing valuations reflects Korea is still in the early stage of evolution towards proper CG and management accountability. However, TMT valuations are undergoing a de-rating globally and the provisioning burden for banks will normalise in the next few years, reducing the risk premium placed on bank stocks. A better correlation between CG and valuations should eventually emerge.

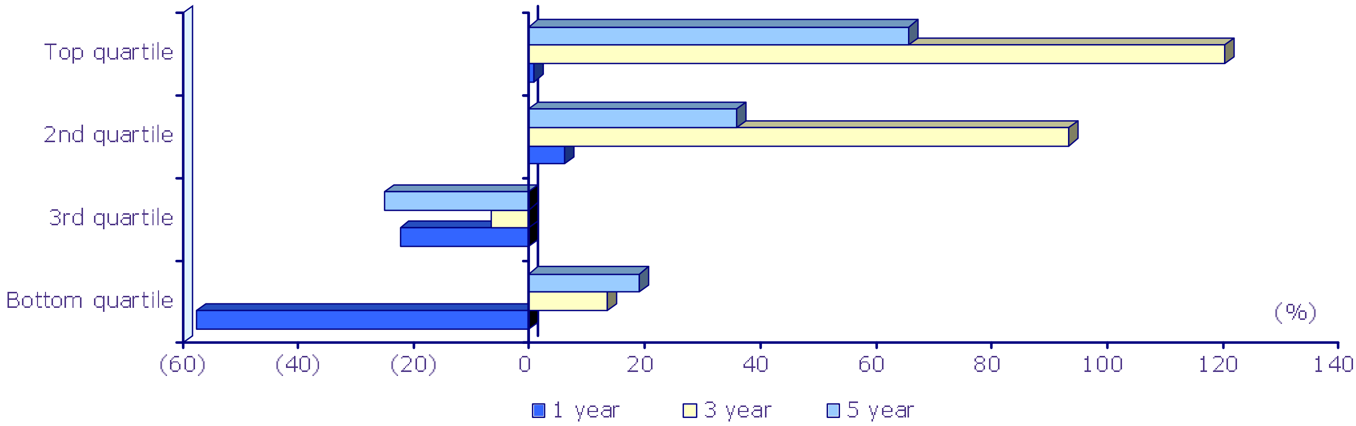
CG and share-price performance

Share-price returns (US$) to end-2000

	Quartile CG ranking				Average of
	Top	Second	Third	Bottom	Country basket
1 year	0.7	6.2	(22.4)	(57.5)	(18.3)
3 year	120.3	93.4	(6.5)	13.5	55.2
5 year	65.6	36.0	(25.1)	19.0	23.9

Source: CLSA Emerging Markets

CG rankings and one-, three-, five- year share-price performance to end-2000



Source: CLSA Emerging Markets

- Perhaps in the most important indicator of recognition in CG improvement is share-price performance. The Korea sample shows a good correlation in terms of performance sorted by CG quartiles, which highlights the growing importance of CG recently.
- Companies in the lowest CG quartile were major underperformers for 2000 falling on average by 48% in US$ terms. Hanaro Telecom and Hyundai Electronics were responsible for much of the fourth quartile decline in share prices.
- Even over the last three years, there is a reasonably good fit between companies sorted by CG quartiles and share price performance. The top two quartiles provided average returns of 120%, whilst the third quartile had an average return of minus 4% and the fourth quartile's average return was minus 16%. The decline in the share price of LG Electronics and Hyundai Electronics are particularly noticeable.
- Over the past five years, however, there is a very poor correlation between CG and share price performance. That this relationship is stronger for one and three years, and that this relationship for the shorter periods has little to do with higher present financial ratios for these companies, reflects that CG in its own right has become a more important criterion in stock selection in Korea since the financial crisis period.

Korea companies sorted by CG

Company name	Discipline 15%	Transp. 15%	Indep. 15%	A/cability 15%	Resp. 15%	Fairness 15%	Social 10%	Wgtd avg 100%
Housing & Comm Bank	55.6	70.0	64.3	62.5	16.7	83.3	50.0	57.9
Hite	55.6	40.0	64.3	75.0	16.7	83.3	50.0	55.2
KorAm Bank	44.4	60.0	57.1	62.5	16.7	77.8	50.0	52.8
Hana Bank	22.2	60.0	64.3	62.5	33.3	72.2	50.0	52.2
SK Telecom	44.4	70.0	14.3	62.5	50.0	33.3	83.3	49.5
POSCO	44.4	40.0	42.9	75.0	33.3	38.9	83.3	49.5
Kookmin Bank	22.2	60.0	57.1	62.5	16.7	77.8	50.0	49.4
Shinsegae	44.4	50.0	21.4	87.5	16.7	77.8	33.3	48.0
Korea Telecom	55.6	60.0	14.3	62.5	33.3	22.2	83.3	45.5
Samsung Electronics	33.3	60.0	35.7	37.5	33.3	38.9	83.3	44.1
Samsung SDI	33.3	60.0	35.7	37.5	33.3	38.9	83.3	44.1
Shinhan Bank	44.4	70.0	57.1	50.0	16.7	22.2	50.0	44.1
KT Freetel	44.4	50.0	14.3	62.5	50.0	16.7	83.3	44.0
LG Telecom	44.4	50.0	14.3	62.5	50.0	11.1	83.3	43.2
Cheil Communications	22.2	40.0	35.7	37.5	50.0	77.8	33.3	42.8
Samsung Heavy Ind	33.3	40.0	35.7	62.5	33.3	33.3	66.7	42.4
Dacom	33.3	50.0	14.3	62.5	50.0	16.7	83.3	42.4
Hyundai Motor	22.2	40.0	35.7	75.0	33.3	27.8	66.7	41.8
Cheil Jedang	11.1	60.0	21.4	37.5	33.3	77.8	50.0	41.2
LG Electronics	33.3	50.0	28.6	37.5	33.3	33.3	83.3	40.7
Hanaro Telecom	33.3	50.0	14.3	62.5	33.3	22.2	83.3	40.7
SEMCO	33.3	50.0	35.7	25.0	33.3	33.3	66.7	38.3
Hyundai Electronics	33.3	50.0	28.6	25.0	33.3	27.8	83.3	38.0
Hyundai Heavy Ind	22.2	40.0	35.7	50.0	33.3	27.8	66.7	38.0
AVERAGE	**36.1**	**52.9**	**35.1**	**55.7**	**32.6**	**44.7**	**66.7**	**45.2**

Source: CLSA Emerging Markets

Patterns in the scores – Korea

	Question	"Yes" score in in country sample (%)	Comments
1	Explicit public statement placing a priority on CG	4.2%	Out of 24 companies in the Korea sample, only POSCO has explcit mission statement regarding corporate governance.
2	Management incentivised towards a higher share price	20.8%	Only 1/5 of companies in the sample universe has management incentive structure that is weighted towards share price performance. They are Housing Commercial Bank, Shinsegae, Hyundai Motor and Samsung Heavy.
3	Sticking to clearly defined core businesses	45.8%	Since the Asian currency crisis, Korean companies have been under pressure by the government to to narrow their scope of business. 46% of companies have complied. Ironically, competitive companies with good cash flow such as POSCO have not remained focused on their main business lines.
4	Having an appropriate estimate of cost of equity	54.2%	Many Korean companies are aware of the concept and provided a cost of equity estimate that is reasonable against CAPM-derived estimate. However, the concept remains a theory only for most managers. There are little indications of them using the concept to work.
5	Having an appropriate estimate of cost of capital	75.0%	Indications are similar to question 4. Most management are aware of the concept and has a reasonable estimate, but little signs of using the concept in business practice.
6	Conservatism in issuance of equity or dilutive instruments	54.2%	A mixed track record. About half of the companies within the sample has had controversial investments financed through new equity within the past 5 years. However, there has been an improvement within the past 2-3 years, and most of the questionable digression were made in the earlier period.
7	Ensuring debt is manageable, used only for projects with adequate returns	4.2%	The score here versus nos 4 and 5 shows that management does not employ its knowledge to business practice. Duration mismatch, ROI and debt coverage are factors, but not the most important ones. Investments are made on other criteria - market share, startegic positioning, etc.
8	Returning excess cash to shareholders	66.7%	Large industrial base that is capital-intensive forces Korean companies to continually invest rather than hoard cash. The trend has been towards building retained earnings recently, but the trend is not wide-spread as of yet.
9	Discussion in Annual Report on corporate governance	0.0%	No company reports have a specific section on corporate governance.
10	Disclosure of financial targets, eg 3-5 year ROA/ROE	25.0%	3-5 year financial forecasts are relatively rare outside banks.
11	Timely release of Annual Report	100.0%	All companies are required by law with exceptions granted for those going into insolvency or creditor administration.
12	Timely release of semi-annual financial announcements	100.0%	All companies are required by law with exceptions granted for those going into insolvency or creditor administration.
13	Timely release of quarterly results	100.0%	All companies are required by law with exceptions granted for those going into insolvency or creditor administration.

Continued next page

Patterns in the scores – Korea (continued)

	Question	"Yes" score in in country sample (%)	Comments
14	Prompt disclosure of results with no leakage ahead of announcement	66.7%	Companies are usually good at announcing results within the first two days after approval by the board. Often, the announcement is made within the same day, and the street has reliable preliminary figures ahead of the official announcements.
15	Clear and informative results disclosure	0.0%	The reports are voluminous, but there are problems of omission in important disclosures. Inclusion of consolidated accounts are a recent requirement, only 3 years old. Prior to the period, no consolidated financials and poor disclosure were the norm.
16	Accounts presented according to IGAAP	50.0%	All companies have two sets of accounts, one for tax purposes and another for reporting purposes. The reported financials are mostly in line with Korean GAAP, which has been modified to conform to the US GAAP on most important items. However, on subjective issues such as loan classification for banks, Korean companies fall short.
17	Prompt disclosure of market sensitive information	45.8%	There are legal disclosure requirements which make companies reasonably focused on announcing major events. Penalties for failure to disclose has increased dramatically, and discosure is getting better, but much more improvement is needed.
18	Accessibility of investors to senior management	12.5%	Analyst meetings in and around major events and results announcements have improved. However, access to senior level management for clients and analysts on individual basis is still low.
19	Web-site where announcements updated promptly	29.2%	For a country that is one of the most extensively connected to the Internet, the quality of corporate websites and up to date electronics releases are poor.
20	Board and senior management treatment of shareholders	25.0%	Most major companies have some dealings that benefit the insider or affiliated companies. Necessity during the restructuring process may be one reason, but most companies have transactions of this type.
21	Chairman who is independent from management	8.3%	Very few. A conglomerate appointee or an ex-government official is the norm.
22	Executive decisions by management committee comprised differently from Board	25.0%	There will be significant improvement in this regard given the enactment of laws that force companies to have 50% of the Board occupied by outside directors. We are moving towards independence, but only a fourth of the companies have this structure at the moment.
23	Audit committee chaired by independent director	45.8%	Most manufacturing companies have an audit committee. Telecoms and banks (both with strong government influence) in particular do not.
24	Remuneration committee chaired by independent director	37.5%	Pattern is similar to question no 23.
25	Nominating committee chaired by independent director	29.2%	Most do not have a nominating committee. Samsung companies and POSCO are notable exceptions.
26	External auditors unrelated to the company	100.0%	In all cases that we know of, the auditors are independent of the company.
27	No representatives of banks or other large creditors on the Board	70.8%	Normally creditors are not represented in the board. The exceptions are banks.
28	Board plays a supervisory rather than executive role	33.3%	The Board is usually not substantially different from the key management personnel.

Continued next page

Patterns in the scores – Korea (continued)

	Question	"Yes" score in in country sample (%)	Comments
29	Non-executive directors demonstrably independent	29.2%	In very few cases are independent directors demonstrably independent, the exceptions being telecom companies.
30	Independent, non-executive directors at least half of the Board	33.3%	Only 1/3 of the companies have more than half the Board being independent directors. The ones with reasonably independent Boards are the banks, and companies with large foreign direct investments.
31	Foreign nationals presence on the Board	45.8%	These include the banks, Samsung companies, POSCO and Hyundai Motor.
32	Full Board meetings at least every quarter	100.0%	Most companies have board meetings every quarter.
33	Board members able to exercise effective scrutiny	58.3%	We were able to verify in 2 of the 4 cases with an independent director. They were satisfied with the pre-meeting briefing.
34	Audit committee that nominates and reviews work of external auditors	66.7%	The system is in place, but in practice there are slippages
35	Audit committee that supervises internal audit and accounting procedures	79.2%	As above
36	Acting effectively against individuals who have transgressed	0.0%	An apology, explanation or a slap on the wrist has been the norm.
37	Record on taking measures in cases of mismanagement	0.0%	It is difficult to draw a line between voluntary action and government imposition. Government pressure almost certainly played a part in companies "voluntarily" punishing failures. Hence the low score.
38	Measures to protect minority interests	0.0%	Track record is poor. There are no companies within the Korea sample for which we can claim fairness across all class of shareholders.
39	Mechanisms to allow punishment of executive/management committee	58.3%	There are frameworks and mechnisms for more than half the companies. Implementation is a problem, however.
40	Share trading by board members fair and fully transparent	70.8%	Share trading by insiders is usually transparent, but not always so. As for fairness, it is more often unfair than fair.
41	Board small enough to be efficient and effective	66.7%	Average of 10-12 members.
42	Majority shareholders treatment of minority shareholders	33.3%	The record is dismal, with banks being the notable exceptions. Conglomerate affiliates such as Samsung are often the worst offenders.
43	All equity holders having right to call General Meetings	25.0%	Theoretically, equity holders can call special meetings. This seldom happens. There are high restrictions on share holders calling a general meeting.
44	Voting methods easily accessible (eg through proxy voting)	100.0%	Generally yes.
45	Quality of information provided for General Meetings	37.5%	Information is provided at General Meetings, but of mediocre quality.
46	Guiding market expectations on fundamentals	8.3%	Quite subjective. The companies do try to do so, but their attempt is often one-sided. Stress positives and play down negatives.

Continued next page

Patterns in the scores – Korea (continued)

	Question	"Yes" score in in country sample (%)	Comments
47	Issuance of ADRs or placement of shares fair to all shareholders	66.7%	Major shareholders selling shares has not been a problem, but issuing shares to investors at peak prices have taken place. We do not see intentional attempt to penalise shareholders. We do see bad judgment in terms of timing.
48	Controlling shareholder group owning less than 40% of company	83.3%	In most cases, the major shareholder owns less than 40% of the company with exception of KT, Koram Bank KT Freetel and LG Telecom.
49	Portfolio investors owning at least 20% of voting shares	29.2%	There have been recent efforts by a local shareholder action group, and active foreign investor input to corporate governance issues for major companies. We have not seen an organised effort as of yet.
50	Priority given to investor relations	91.7%	In most cases, Investor Relations is given quite high priority, particularly with regard to foreign shareholders.
51	Total Board remuneration rising no faster than net profits	62.5%	With the exception of Samsung companies (quite profitable) and financially troubled companies, remuneration of directors have not increased faster than net income after exceptionals.
52	Explicit policy emphasising strict ethical behaviour	33.3%	Letter of the law guidelines exist, but enforcing ethical standard is low on the priority.
53	Not employing the under-aged	100.0%	Strict legal requirement makes it impossible to employ underaged persons unless allowed by law.
54	Explicit equal employment policy	25.0%	Poor treatment of women relative to men is a culturally accepted behavior. Things have begun to improve in this regard, and employment policy now are improving for women. Race has never been an issue in Korea.
55	Adherence to specified industry guidelines on sourcing of materials	87.5%	Most companies adhere to industry guidelines on sourcing materials with those that do not merely transgression minor little publicised matters.
56	Explicit policy on environmental responsibility	58.3%	Manycompanies are explicitly environmentally conscious, and the issue is becoming increasingly important.
57	Abstaining from countries where leaders lack legitimacy (Myanmar)	95.8%	Cheil Jedang is the only exception.

Source: CLSA Emerging Markets

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Malaysia – CG minefield

High CG BUYs/low CG SELLs

Company	CG Score (%)	Re-rating drivers
High CG BUYS		
BAT	75.3	Steady gains in market share, increasing premium ratings in uncertain equities market environment. BUY.
Tanjong	74.5	Earnings growth through power division. BUY.
MISC	66.7	Upside to earnings and RNAV from LNG3 contracts. BUY.
Courts	64.9	Sustained earnings growth as it expands into geographically untapped markets. BUY.
Public Bk	63.7	Will gain market share with its easy merger with complementary Hock Hua. O/PERFORM.
Low CG SELLs		
UEM	24.6	Concerns over further payments due from vice-chairman on RM3.2bn debt outstanding. SELL.
B Toto	26.5	Inability to reduce parent group's debt will lead to further concerns of cash being siphoned out. SELL.
MAS	40.6	Inability to get domestic fare increase and difficulty in attracting foreign partner will mean underperformance with losses projected still for next two years. SELL.
NSTP	41.9	Credibility issue of papers affecting circulation numbers and inability to execute sale of its stake in Commerce continues to hinder financial performance. SELL.
RHB Cap	44.7	Major shareholder facing various obstacles and believed to be under pressure to dispose banking stake, which would affect valuations for the whole group. SELL.

Source: CLSA Emerging Markets

Latest CG developments

Country ratings for macro determinants of CG

	Rating (1-10)
Rules and regulations	9
Enforcement and regulation	2
Political/regulatory environment (ie, interference)	2
Adoption of IGAAP	5
Institutional mechanisms and corp governance culture	5

Source: CLSA Emerging Markets

Finance Committee issues report on CG in 1999

In February 1999, the Finance Committee on Corporate Governance – established by the authorities – issued its report. This set out various recommendations presented to the Minister of Finance. A special Task Force was then set up which issued in March 2000 the Malaysian Code on Corporate Governance, which sets out principles and best practices. While adoption of the standards was voluntary, the KLSE has made mandatory disclosure on whether the standards are being followed and for companies to explain in their annual reports where they do not follow the best practices set out in the Code.

Malaysian Code on CG and new KLSE listing requirements

Malaysian Code on Best Practices (March 2000)	Changes in new Listing Requirements of the KLSE (implementation Feb-Jun 2001)
❑ Recommended that the positions of CEO and Chairman be split – a decision to combine the roles should be publicly explained.	❑ Disclosure in annual reports on its application of and compliance with principles and best practices of the Malaysian Code of Corporate Governance.
❑ Independent non-executive directors should make up at least one third of the board.	❑ Loans to third parties and unlisted holding companies will no longer be allowed. Loans to listed holding companies will be allowed only if approval is obtained from minorities through an EGM. Any loan increase after 15 February 2001 will require minorities' approval.
❑ A nominating committee should be formed composed exclusively of non-executive directors, a majority of whom are independent, with the responsibility for proposing new nominees for the board and for assessing directors on an on-going basis.	❑ A statement in annual reports on the state of internal control of their companies on a group basis.
❑ Nominating committee should also annually assess the effectiveness of the board as a whole, the committees of the board and the contribution of each individual director.	❑ One-third of directors must be independent. Independent directors must confirm "independence" in writing to the KLSE.
❑ The board should disclose the number of board meetings one year ahead with details of attendance of each individual director.	❑ All directors are required to attend training programmes prescribed by the Exchange and furnish undertakings to the exchange to comply with the Listing Requirements.
❑ Remuneration committees should be set up consisting mainly of non-executive directors to recommend the remuneration of the executive directors in all its forms.	❑ Immediate announcements to the exchange to include material developments to corporate proposals that have been announced and on purchases or sales of quoted securities.
❑ The board should form an audit committee of at least three directors, a majority of whom are independent and chaired by an independent non-executive director.	❑ Any revenue, profit estimate or forecast in announcements must be reviewed by external auditors.
❑ The audit committee should meet at least once a year with external auditors without executive board members present. It should also consider, among other things, any related party transactions that may arise within the company or group and major findings of internal investigations.	❑ Any information provided to the Exchange must be clear, unambiguous, accurate and not contain any material omission and not be false or misleading.
	❑ Remuneration of directors to be disclosed in annual reports. This need not identify the remuneration of each director, but it will have to show how many directors are paid in each bracket of RM50,000 right up to the top bracket earned.
	❑ Non-audit fees paid to external auditors also to be disclosed in annual reports.
	❑ KLSE empowered to enforce against directors and advisers for breaches of the Listing Requirements.
	o PLCs must have a financial condition and level of operations that, in the opinion of the Exchange, would be sufficient to justify continued listing – this is understood to mean at least having a positive NTA.

Source: CLSA Emerging Markets

KLSE will delist companies with negative NTA

Following on from the Finance Committee report, the KLSE in January 2001 revamped its Listing Requirements, the main objective being to enhance CG and transparency of listed companies. The implementation is over various target dates, but all to be in place by June this year. The new Listing Requirements specify the following for PLCs:

"Action is eloquence" – Shakespeare

The efforts of regulators to tighten up and improve standards have, however, been undermined by various decisions and corporate events which continue to present a negative pall on Malaysia's CG standing. Among the concrete proposals that had been recommended in the Finance Committee report in 1999 was that the Employees Provident Fund (EPF) should take the lead to organise a minority shareholder watchdog group. This watchdog group would be one that could take action against corporates that transgress. However, it has yet to be formed and since the recommendation to set it up was made, various corporates continue to slip in adhering to the expected standards. Both local and foreign investors continue to be wary of CG, particularly of companies seen as influential.

Standards should improve with the new KLSE Listing Guidelines

However, there is likely to be some real improvement for most of the listed corporates. After February 2001, listed companies will not be allowed to lend to unlisted entities or third parties; any loan would have to be to a listed parent, and even then it would have to be approved by minorities at an EGM. Companies have to make prompt disclosures on purchase or disposal of listed shares. The remuneration of directors has to be disclosed in terms of how many earn annual incomes in RM50,000 brackets right up to the highest paid. Directors, not just the companies, will be liable to pay penalties if their companies violate the Listing requirements. This promises to improve governance standards, the caveat being what some might be able to get away with.

Best and worst in recent CG events

At end-2000, UEM proposed to take over assets and liabilities of parent, Renong

One of the darkest spots on Malaysia's CG record has been the ongoing saga to rescue the Renong group of its heavy debt burden. Last November, UEM, the 38%-owned associate of Renong, announced it would acquire all assets and assume all liabilities of its parent, Renong, in a RM6.7bn transaction that is larger than UEM's own market capitalisation. The valuation on the assets was not disclosed, but the best estimates are that it is at a 30% or close to RM2bn (US$500m) premium to market values. The shares of UEM and Renong both fell between 40-60% in the weeks following the announcement.

Vice-chairman still owes UEM RM3.2bn (US$900m)

UEM was a stock that investors were watching for other reasons too. In 1998, it had been granted a put by its vice-chairman when UEM acquired a 32% stake in its parent, Renong. The put expired in February 2001. The Renong block, under the terms of the put, could be placed to the vice-chairman at acquisition plus holding cost. This translated to RM4.20 per share of Renong - more than double the market value as 2000 drew to an end. It was clearly in the interest of UEM to exercise the put. The big question was where the vice-chairman would find RM3.2bn (US$800m) to honour it. As the expiry date approached, UEM announced that it would exercise the put but that the vice-chairman would be given until May 2002, a 15-month extension, to pay the principal amount. In the mean time, he would also pay interest in the form of three payments of RM100m over the year. A put had been converted into a debt, for a company that was geared at 300% and where interest cover was dropping with the various acquisitions that UEM was making from Renong. The vice-chairman made the first RM100m interest payment in February 2001 but has asked for a two-month extension for the next payment due in July.

The SC gave the government a waiver when it bought back MAS

Meanwhile, the Securities Commission granted a waiver to the government from a general offer when it acquired a 30% stake in MAS that increased the government's control from 20% to 50%. The acquisition price was at double the market value, paid to the holding company of the entrepreneur who had acquired MAS in 1994, Tajudin Ramli. The government's stake crossed the general offer threshold of 33%. The Securities Commission did not give reasons for granting the waiver.

Allianz's application for a waiver however was denied

However, in January 2001, when the German-based Allianz group made an application for a waiver from a general offer as part of its proposal to increase its stake in a Malaysian-listed insurer from 22% to 57%, the waiver was not granted. As a result, Allianz had to reconsider its bid, and eventually decided to go ahead and make a general offer.

Tenaga continues to operate with no tariff formula and ROA below cost of debt

Among the largest companies in the market, the big issue for investors of Tenaga remains whether and when it will get a tariff increase, or even a new tariff formula to replace the one suspended since 1995. The market was expecting a tariff increase for Tenaga in late 2000. However, ultimately no tariff rise was obtained. Instead, there was a change of chairman at Tenaga in August 2000. The new chairman (who, unlike the former, is a non-executive) is an MP who is head of the backbencher's club of UMNO. No date has yet been set for when Tenaga might get a tariff increase, and it continues to run with a ROA of 4.5% and debt rising at over RM2bn pa.

Banks appear to be more independent

The best light on CG practices is that banks appear to have become more careful in their lending to influential businessman. A concern was that they might be directed to provide credit to the vice-chairman of UEM so that the RM3.2bn put option granted to UEM would be exercised. In the event, the banks did not provide the line. Although Chairman Halim made a RM100m interest payment in February, it does not appear that he obtained financing from local banks. (Malaysian banking law, however, prevents banks from disclosing who their borrowers are, or any details on them.)

Companies with CG upside potential

Company	CG Score (%)	Events that could change CG score
MAS	31.8	❏ New management with chairman (from Petronas) and MD (formerly from Bank of Commerce) with strong professional credentials. ❏ Concerns of conflict of interest with previous shareholder will be relieved. ❏ Potential restructuring may involve divesting loss-making domestic operations.
Tenaga	39.9	❏ Greater accessibility to new chairman. ❏ Investor relations likely to be given greater priority. ❏ CG standards of authorities likely to mean greater transparency.
YTL Corp	44.6	❏ Likely to employ new CG standards with greater impact. ❏ Transparency may improve as it is seen to be a priority with investors.
Magnum	27.6	❏ Balance sheet may be cleaned out to facilitate sale from present major shareholders. ❏ Transparency may improve as it is seen to be an investor priority; management already showing signs of opening up.

Source: CLSA Emerging Markets

Companies with CG downside risk

Company	CG Score (%)	Events that could change CG score
Telekom	48.4	❑ TRI and Celcom have until May 2002 to refinance the ECB puts or TRI faces a dilution of its stake in Celcom. To avoid losing control, a stake in Celcom could be sold to Telekom Malaysia but not likely with much control. ❑ Telekom has expanded internationally in Africa, India and Asia with mixed results. Continuing its international diversification is a distraction from the domestic market.
Time dotCom	n.a.[1]	❑ Listing of Time dotCom makes it a vehicle with RM900m net cash. But within the highly geared Renong-UEM group, misallocation of capital via acquisitions/loans is a risk. ❑ TdC accounting standards, as it lists, already involve pushing depreciation back and stating subscribers on a gross basis rather than net. Expectations will be that it will seek the most flattering presentation of its financial and operating performance.
Commerce	59.5	❑ Commerce Asset is the banking unit under the Renong arm and is seen as vulnerable to providing greater credit to its parent and ultimate shareholders. ❑ Until the Renong group and its shareholders reduce their debt level, they will continue to require financing. ❑ Banking laws in Malaysia prevent the group from disclosing their exact exposure to any borrower, including to Renong and related parties; hence the market is unable to determine if these loans are rising. However, loan growth of Commerce if higher than the sector average (as in 2000) might be seen as higher risk loans.

[1] Stock listed on 12 March 2001 and is not yet part of CLSA core coverage Source: CLSA Emerging Markets

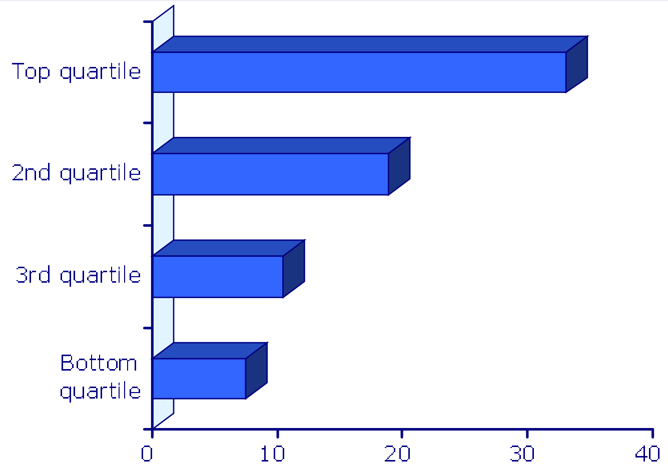
CG and financial performance

CG to ROCE, ROE and EVA™ for Malaysia sample

	Quartile CG ranking				Average of
	Top	Second	Third	Bottom	Country basket
ROCE (%)	29.4	31.3	10.2	12.5	20.2
ROE (%)	33.1	18.9	10.5	7.5	17.1
EVA™/IC (%)	12.6	11.6	2.0	0.0	6.2

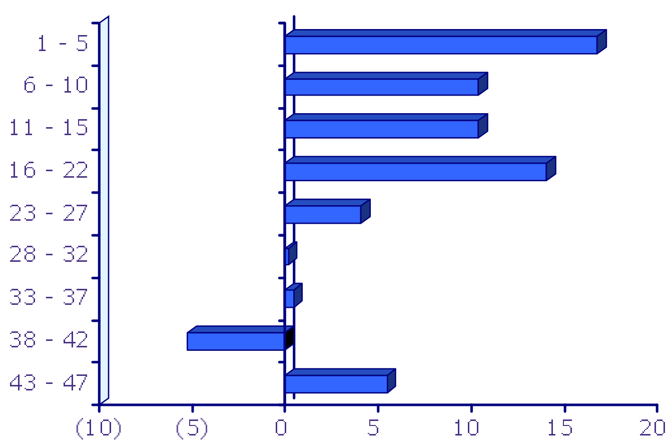
Source: CLSA Emerging Markets

CG rankings and ROE



Source: CLSA Emerging Markets

CG rankings and EVA™



Source: CLSA Emerging Markets

- Within our Malaysian coverage, companies that come into the top quartile for CG, have much higher financial performance ratios than the market, while the bottom quartile have much poorer ratios without exception.
- On FY00 ROCE, the average for our Malaysian sample (47 companies) is 20.2%. The top quartile, however, had an average ROCE of 29% (and the top 10% of the sample for CG had a ROCE of 46.8%). While the bottom quartile had a ROCE of 12.5%.
- Similarly for ROE, the top quartile in our sample had an average ROE of 33% (for the top CG decile it is 52% average ROE), the average of the sample is 17% and the bottom quartile showed an average ROE of 7.5%.
- For EVA™ over invested capital, the average of the sample is 6.2%. The top quartile had an average of 12.6% (17.1% for the top decile) while the bottom quartile average EVA™/IC is zero.
- The extraordinarily high financial performance ratio for the companies in the top quartile comprise of simple averages of BAT, Tanjong, Carlsberg, Public Bank, Nestle, Roadbuilder, MISC, Courts, Maybank, and IOI Corp. The high financial ratios were recorded by the likes of **BAT**, **Carlsberg**, **Nestle** and **Courts**.

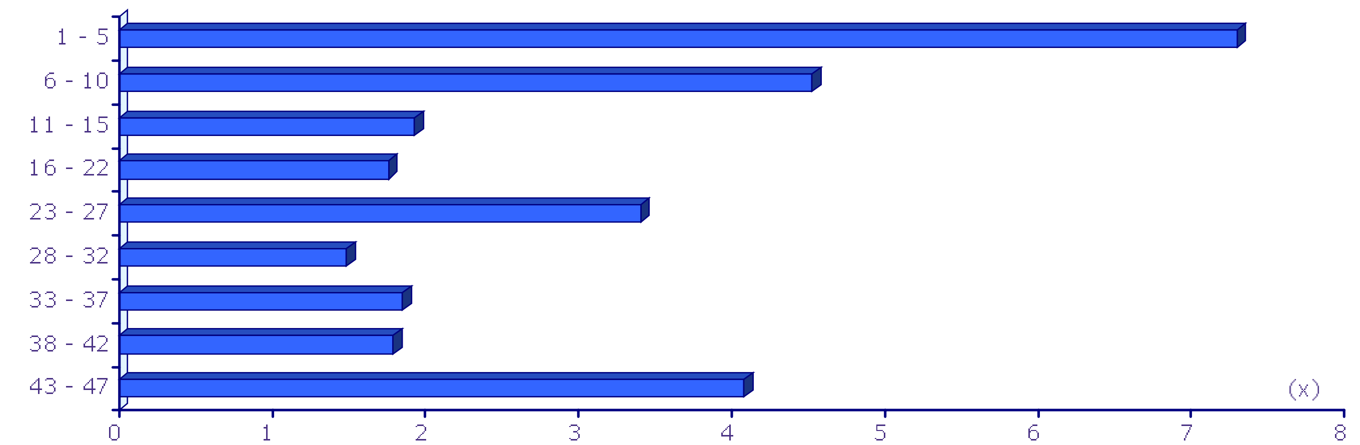
CG and valuations

CG to PE and PB for Malaysia sample

	Quartile CG ranking				Average of
	Top	Second	Third	Bottom	Country basket
FY01 PE (x)	13.9	11.8	20.8	14.1	15.2
FY00 PB (x)	5.7	2.1	1.6	2.9	3.1

Source: CLSA Emerging Markets

CG rankings and PB



Source: CLSA Emerging Markets

- Companies with better CG scores also tend to have higher valuations, but there are obviously other factors that come to play here.
- The most noticeable valuation premium is with regard to PB. The average of our Malaysian sample is 3.1x (for the recently completed financial year), while for the top quartile the average PB is substantially higher at 5.7x and for the lowest quartile the average PB is slightly lower than the average. The high PB particularly for the top decile – **Carlsberg**, **BAT**, **Nestle**, **Courts** and **Maybank** – is partly owing to the high ROEs of these companies.

- For PEs, the average of our sample is 15.2x (current year earnings). The top quartile had an average that was slightly lower at 13.9x (although the top decile had a higher average PE of 15.7x). The companies in the lowest quartile for CG in Malaysia were at a multiple of 14.1x and the lowest decile at just 6.5x.
- The companies in the lowest decile for CG scores – UEM, TRI, Magnum and B Toto – are at a clear PE discount relative to the market.
- PE valuations were distorted by Telekom and Tenaga (the two largest stocks in the market) falling in the third and fourth quartile for CG respectively, which are supported by the large local funds and thus are at a huge premium to the market (at 34x and 21x FY01 multiples respectively).

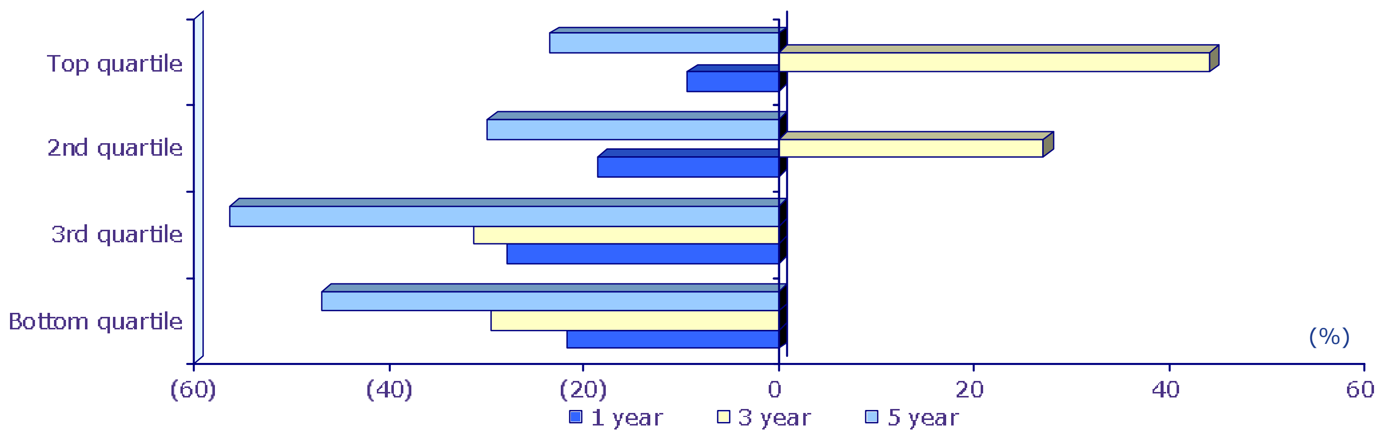
CG and share-price performance

Share-price returns (US$) to end-2000

	Quartile CG ranking				Average of
	Top	Second	Third	Bottom	Country basket
1-year share-price performance	(9.4)	(18.6)	(27.7)	(21.7)	(19.0)
3-year share-price performance	44.2	27.1	(31.3)	(29.4)	5.6
5-year share-price performance	(23.5)	(29.8)	(56.4)	(46.9)	(40.1)

Source: CLSA Emerging Markets

CG rankings and one-, three- and five-year performance to end-2000



Source: CLSA Emerging Markets

- Companies with top CG quartile scores have outperformed over the last one, three and five years, while companies in the lowest quartile have underperformed the overall sample without exception.
- In our sample, the simple average return for 2000 was -19%. For the top quartile, the average performance of the stocks was -9%; while the bottom quartile performance last year was -22%. Even in the recent tough year for Malaysian equities, the top decile showed an average 0.6% gain with more than 20% share-price gains for **BAT** and **Nestle**, both companies with top-level CG scores.
- For the past three years the simple average total return for the sample in US$ was 5.6%. The top quartile outperformed significantly with a return of 44% while the bottom two quartiles in the sample fell by 30%. Top quartile companies that have had very strong share-price performances over the past three years have been **Public Bank**, **Roadbuilder**, **IOI Properties** and **Maybank**, which have all risen over 45%.

- For the past five years, the average of the Malaysian basket fell 40%. But again, the top two quartiles were relative outperformers, falling by 24% and 30% respectively while the bottom two quartiles had the stocks with the heaviest losses with 56% and 47% average declines. The biggest losses were for the bottom decile of our CG scores where the average decline over the past five years has been 72% with losses over 70% for **TRI**, **Magnum**, **B Toto** and **UEM**.

Malaysia companies sorted by CG

Company name	Discipline 15%	Transp. 15%	Indep. 15%	A/cability 15%	Resp. 15%	Fairness 15%	Social 10%	Wgtd avg 100%
BAT	77.8	80.0	100.0	50.0	83.3	94.4	50.0	77.8
Tanjong	66.7	70.0	92.9	62.5	83.3	94.4	66.7	77.1
Carlsberg	55.6	80.0	78.6	87.5	66.7	88.9	83.3	76.9
Public Bank	77.8	60.0	100.0	50.0	66.7	94.4	66.7	74.0
RBH	77.8	70.0	92.9	50.0	66.7	100.0	50.0	73.6
Nestle	77.8	70.0	85.7	50.0	66.7	83.3	66.7	71.7
Courts Mammoth	55.6	90.0	78.6	50.0	66.7	88.9	50.0	69.5
MISC	66.7	70.0	78.6	37.5	66.7	88.9	66.7	67.9
IOI Properties	77.8	100.0	28.6	50.0	66.7	83.3	66.7	67.6
UMW	44.4	70.0	78.6	62.5	66.7	77.8	66.7	66.7
Maybank	66.7	60.0	100.0	50.0	50.0	77.8	50.0	65.7
IOI Corporation	88.9	100.0	28.6	50.0	66.7	44.4	83.3	65.1
Star	33.3	80.0	85.7	37.5	66.7	83.3	66.7	64.6
Malakoff	55.6	50.0	85.7	37.5	66.7	100.0	50.0	64.3
AMMB	66.7	60.0	92.9	37.5	50.0	83.3	50.0	63.6
SP Setia	44.4	90.0	21.4	50.0	83.3	88.9	66.7	63.4
Gamuda	66.7	60.0	85.7	12.5	66.7	94.4	50.0	62.9
EON	44.4	60.0	78.6	50.0	66.7	83.3	50.0	62.5
Unisem	44.4	70.0	85.7	37.5	50.0	88.9	50.0	61.5
JTI	33.3	70.0	85.7	37.5	66.7	77.8	50.0	60.6
Guinness	33.3	70.0	78.6	37.5	50.0	77.8	83.3	60.4
Digi.com	55.6	50.0	78.6	50.0	50.0	83.3	50.0	60.1
IJM	55.6	60.0	85.7	12.5	50.0	100.0	50.0	59.6
Commerce Asset	55.6	70.0	100.0	87.5	16.7	33.3	50.0	59.5
Sime Darby	33.3	40.0	100.0	50.0	50.0	88.9	50.0	59.3
Resorts	55.6	80.0	78.6	12.5	50.0	83.3	50.0	59.0
Tan Chong	55.6	60.0	71.4	25.0	66.7	77.8	50.0	58.5
Genting	55.6	80.0	78.6	12.5	50.0	83.3	33.3	57.3
NSTP	22.2	70.0	85.7	25.0	50.0	83.3	66.7	57.1
Sime UEP	44.4	50.0	78.6	25.0	66.7	77.8	50.0	56.4
PGas	33.3	60.0	85.7	25.0	50.0	72.2	66.7	55.6
KL Kepong	33.3	70.0	21.4	62.5	66.7	72.2	66.7	55.6
Proton	33.3	50.0	78.6	37.5	50.0	72.2	50.0	53.2
Golden Hope	55.6	60.0	28.6	25.0	50.0	72.2	83.3	52.0
MAA	77.8	60.0	21.4	50.0	50.0	50.0	50.0	51.4
K. Guthrie	55.6	50.0	21.4	12.5	66.7	66.7	83.3	49.3
Telekom Malaysia	22.2	80.0	78.6	25.0	33.3	27.8	83.3	48.4
MPI	44.4	60.0	71.4	37.5	16.7	33.3	66.7	46.2
YTL Corp	22.2	30.0	71.4	12.5	50.0	77.8	50.0	44.6
YTL Power	22.2	30.0	71.4	12.5	33.3	72.2	50.0	41.3
Tenaga	44.4	50.0	28.6	37.5	33.3	27.8	66.7	39.9
RHB Capital	55.6	70.0	42.9	25.0	0.0	27.8	50.0	38.2
MAS	33.3	50.0	21.4	12.5	33.3	27.8	50.0	31.8
TRI	11.1	40.0	21.4	50.0	16.7	22.2	66.7	30.9
Magnum	11.1	50.0	21.4	12.5	16.7	27.8	66.7	27.6
Btoto	0.0	50.0	21.4	25.0	16.7	16.7	66.7	26.1
UEM	33.3	30.0	21.4	12.5	16.7	16.7	50.0	24.6

Source: CLSA Emerging Markets

Patterns in the scores – Malaysia

	Question	"Yes" score in in country sample (%)	Comments
1	Explicit public statement placing a priority on CG	27.7%	Only about a quarter of Malaysian companies have explicitly placed corporate governance as a priority. Of these are BAT, Tanjong, Maybank, Nestle, MISC, IOI group, Courts, Digi, Golden Hope, Guthrie and AMMB.
2	Management incentivised towards a higher share price	21.3%	For 3/4 of our Malaysian sample, senior management have little financial incentive to ensure a high share price. The exceptions are Tanjong, Courts, IOI Corp, Roadbuilder, Genting, Gamuda, Tan Chong, Unisem, YTL Corp, and MAA.
3	Sticking to clearly defined core businesses	53.2%	Most Malaysian companies have stuck to their core businesses, but those that have diversified include Telekom, Sime Darby, IOI Corp, Roadbuilder, Gamuda, IJM, NSTP. Tenaga is considering venturing into fibre-optics.
4	Having an appropriate estimate of cost of equity	46.8%	Only about half of our sample gave an indication of cost of equity that was close to our estimate using CAPM.
5	Having an appropriate estimate of cost of capital	46.8%	Slightly less than half of the Malaysian companies provided an estimate of WACC that was close to CLSA's estimate.
6	Conservatism in issuance of equity or dilutive instruments	76.6%	Most companies have not issued equity or warrants for financing of acquisitions/projects in a way that raised controversy.
7	Ensuring debt is manageable, used only for projects with adequate returns	83.0%	Use of debt has been reasonably prudent in Malaysia apart from a handful of companies that have risen their debt to unsustainable levels eg MAS, Tenaga, NSTP, TRI and UEM.
8	Returning excess cash to shareholders	70.2%	About a third of Malaysian companies have allowed retained earnings to push down the ROE because of the low yield on cash. This has become particularly acute has rates on deposits have fallen to just 3% from 5-6% before the financial crisis.
9	Discussion in Annual Report on corporate governance	10.6%	Almost 90% of the companies do not have a section in the annual report devoted to corporate governance. The notable exceptions are Maybank, RHB Capital, AMMB, Commerce Asset, Public Bank, and the IOI group.
10	Disclosure of financial targets, eg 3-5 year ROA/ROE	14.9%	Also very few Malaysian companies provide 3- or 5-year financial targets. The exceptions here are again mainly the banks.
11	Timely release of Annual Report	78.7%	Most Malaysian companies produce their annual reports within four months. KLSE regulations require that these be produced within 5 months.
12	Timely release of semi-annual financial announcements	100.0%	Semi-annual results are announced within 2 months to meet with KLSE regulations.
13	Timely release of quarterly results	100.0%	Quarterly results are also released promptly in keeping with the exchange's regulations.
14	Prompt disclosure of results with no leakage ahead of announcement	83.0%	Most companies announce their results within 2 working days of the Board meeting to confirm the results. In some cases however share prices move ahead of the actual results announcement.

Continued next page

Patterns in the scores – Malaysia (continued)

	Question	"Yes" score in in country sample (%)	Comments
15	Clear and informative results disclosure	27.7%	7 in 10 of the profits announced are clear and informative. KLSE regulations require not just the P&L but B/S to be announced at the same time.
16	Accounts presented according to IGAAP	76.6%	Most of the company results are presented consistent with IGAAP, the excpetions being the toll roads that push their depreciation to end-year (on a % of estimated revenues basis) and other companies that have share options/warrants where the treatment is not usually consistent with US GAAP.
17	Prompt disclosure of market sensitive information	51.1%	Relevant information is not always disclosed promptly.
18	Accessibility of investors to senior management	57.4%	Slightly more than half of the Malaysian companies provide investors and analysts with good access to management.
19	Web-site where announcements updated promptly	44.7%	Less than half of the companies have an English language web-site where announcements are presented promptly.
20	Board and senior management treatment of shareholders	70.2%	The record for making decisions at the expense of minorities is not impressive with notable transgressions in recent years by UEM, TRI, Magnum, B Toto and MAS. Tenaga's decision not to proceed with a tariff increase also scores against it.
21	Chairman who is independent from management	40.4%	In more than half of the companies in our sample, the Chairman is not an independent director.
22	Executive decisions by management committee comprised differently from Board	46.8%	In less than half of the cases is there any substantial difference between the management committee and the Board.
23	Audit committee chaired by independent director	100.0%	All companies have an audit committee chaired by an independent director as required.
24	Remuneration committee chaired by independent director	31.9%	Less than a third of the companjes in the sample have a remuneration committee, the excpetions being BAT, Tanjong, Maybank as well as the other banks, the Genting group, Roadbuilder,Gamuda, Sime Darby, Unisem and IGB.
25	Nominating committee chaired by independent director	21.3%	Even fewer companies in Malaysia have a nominating committee. Here the few exceptions are again the banks, BAT, Tanjong, Courts, the Genting group, Gamuda, Sime Darby, Unisem and IJM.
26	External auditors unrelated to the company	100.0%	In all cases that we know of, the auditors are independent of the company.
27	No representatives of banks or other large creditors on the Board	100.0%	Malaysian companies do not have their bankers or creditors on the Board.
28	Board plays a supervisory rather than executive role	46.8%	In more than half the cases the Board is not substantially different from the key management personnel.
29	Non-executive directors demonstrably independent	19.1%	In very few cases are independent directors demonstrably independent, the exceptions being BAT, Maybank, Carlsberg, Public Bank, Digi, Sime Darby and AMMB.

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Patterns in the scores – Malaysia (continued)

	Question	"Yes" score in in country sample (%)	Comments
30	Independent, non-executive directors at least half of the Board	27.7%	Less than a third of the Malaysian companies have more than half the Board being independent directors. The ones with a quite independent Boards are Nestle, Maybank, Carlsberg, MISC, Public Bank, Star, Guinness, Roadbuilder, Sime Darby, Commerce, Telekom, and Tenaga.
31	Foreign nationals presence on the Board	36.2%	Only about a third have foreign nationals on the Boards. These include the MNCs, including Malaysia's Sime Darby, EON, Courts, Proton, Digi, Malakoff, Commerce Asset, Golden Hope, AMMB, Unisem, MPI, Tan Chong, KLK, RHB Capital and even TRI.
32	Full Board meetings at least every quarter	97.9%	Most companies have board meetings every quarter.
33	Board members able to exercise effective scrutiny	25.5%	Getting independent verification from independent directors was an obstacle to getting these answers. The companies that provided us access to independent directors were Tanjong, EON, Carlsberg, MISC, the IOI group, Proton, Commerce Asset, MAA and MAS.
34	Audit committee that nominates and reviews work of external auditors	23.4%	As above
35	Audit committee that supervises internal audit and accounting procedures	23.4%	As above
36	Acting effectively against individuals who have transgressed	78.7%	In most cases where the companies have made decisions that disadvantaged minorities, these go unpunished.
37	Record on taking measures in cases of mismanagement	0.0%	Almost no companies have taken effective and convincing action against management that has transgressed.
38	Measures to protect minority interests	66.0%	2/3 of the companies have a demonstrable record of protecting all shareholders.
39	Mechanisms to allow punishment of executive/management committee	14.9%	Few companies have the mechanism to punish management for transgressions.
40	Share trading by board members fair and fully transparent	78.7%	Share trading by insiders is usually fair and transparent, but not always so.
41	Board small enough to be efficient and effective	85.1%	The Board sizes in our sample ranged from 5 to 15 with the average Board size being 9.4.
42	Majority shareholders treatment of minority shareholders	74.5%	In some cases, it would appear that decisions have favoured major shareholders over minorities in particular for UEM, TRI,. Magnum, B Toto, Tenaga (delay in tariffs owing to govt objectives), MAS and Telekom (being involved in proposal to take on CLOB shares).
43	All equity holders having right to call General Meetings	100.0%	In general, the shares owned by minorities are ordinary shares where all shareholders can call for General Meetings.
44	Voting methods easily accessible (eg through proxy voting)	100.0%	Voting methods in Malaysia are accessible.

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Patterns in the scores – Malaysia (continued)

	Question	"Yes" score in in country sample (%)	Comments
45	Quality of information provided for General Meetings	63.8%	In most cases, the necessary information is provided at General Meetings.
46	Guiding market expectations on fundamentals	44.7%	The record of senior management in seeking to ensure that the market value reflects fundamentals is patchy, but stronger on this are corporates like BAT, Tanjong, EON, MISC, Carlsberg, the IOI group, Genting group, AMMB and MAA.
47	Issuance of ADRs or placement of shares fair to all shareholders	87.2%	Few Malaysian companies have issued depositary receipts.
48	Controlling shareholder group owning less than 40% of company	40.4%	In most cases, the major shareholder owns more than 40% of the company and hence is in a strong position to push through deals.
49	Portfolio investors owning at least 20% of voting shares	29.8%	Few companies have shareholders with a track record of activism. Those companies with at least 20% of their shares in the hands of portfolio investors are BAT, Maybank, Public Bank, IOI Corp, Malakoff, Roadbuilder, Commerce Asset, Sime Darby, AMMB, IJM, YTL Corp, RHB Cap and MAA.
50	Priority given to investor relations	85.1%	In most cases, Investor Relations is given quite high priority - usually because the major shareholder has an interest in a high value for the stock.
51	Total Board remuneration rising no faster than net profits	51.1%	In nearly half the companies, remuneration and benefits of directors have increased faster than net profit after exceptionals – which is partly because for some of these companies net earnings is lower than 5 years earlier. Board remuneration ranges from 0.3% (P Gas) to 10.4% (Resorts). Companies that pay more than 5% of earnings to directors include Star, Genting and B Toto. For UEM (which is making losses) the ratio is meaningless.
52	Explicit policy emphasising strict ethical behaviour	19.1%	Nearly 30% of the companies have a public statement emphasizing ethical behaviour.
53	Not employing the under-aged	100.0%	All companies under our coverage in Malaysia have a culture/policy of NOT employing the under-aged. (When labour conditions were tight, migrant workers from Indonesia and Bangladesh were brought in.)
54	Explicit equal employment policy	0.0%	None of the companies have an official policy of equal employment as it is the national policy to provide employment and seek to advance the indigineous Bumiputra community.
55	Adherence to specified industry guidelines on sourcing of materials	100.0%	Most companies adhere to industry guidelines on sourcing materials with those that do not merely transgression minor little publicised matters.
56	Explicit policy on environmental responsibility	53.2%	Only about half of the Malaysian companies are explicitly environmentally conscious.
57	Abstaining from countries where leaders lack legitimacy (Myanmar)	97.9%	A few companies have operations in Myanmar including the Genting group.

Source: CLSA Emerging Markets

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Pakistan – Hope in privatisation

High CG BUYs/Low CG SELLs

Company	CG Score (%)	Re-rating drivers
High CG BUYS		
Lever Brothers Pakistan	43.0	Taxing consumption will reduce competitive pressures for documented sector companies. BUY.
Low CG SELLs		
Pakistan Telecom	18.9	Lack of strategic direction to persist with a bureaucratic management at the helm. SELL.
Hub Power	25.6	Revised tariff agreement does not remove risk of non-payment by WAPDA. SELL.
Askari Bank	28.4	Low T-Bill yields and smaller branch network makes this an unattractive bank. SELL.

Source: CLSA Emerging Markets

Latest CG developments

Country ratings for macro determinants of CG

	Rating (1-10)
Rules and regulations	3
Enforcement and regulation	2
Political/regulatory environment	4
Adoption of IGAAP	5
Institutional mechanisms and CG culture	2

Source: CLSA Emerging Markets

Minorities in misery

Rock bottom? Down and out? The pits? These choice titles skimmed my frontal lobe when compiling CG scores for Pakistan. And surely, my subconscious served me well. The overall score for Pakistan did take its rightful place at the bottom of the pile, but to my astonishment the exercise also highlighted a trend suggesting an improving CG profile; a trend that hints at greater minority-shareholder protection and higher quality and quantity of data dissemination to come.

Management decisions invariably isolate minorities

Flipping through the individual company scores, it’s visible that the spread between the highest and lowest is directly related to shareholding pattern, MNC status and independence exhibited by management. An employee-owned company such as Engro Chemical thus earns the highest points (65.6%) in comparison to the state-owned telecom incumbent, Pakistan Telecom, that languishes at the bottom of the pile (18.9%). MNCs, not surprisingly, score well in terms of independence and social awareness, though a tightly held share ownership structure implies that management absolutely abhors analyst contact, thus these companies suffer on account of transparency. Pakistan State Oil, despite government majority ownership, does better on average for reasons that the new management, inducted from the private sector, has successfully exerted its independence from state interference. Companies scoring below average all suffer based on a track record exhibited by management of making decisions at the expense of, and detrimental to, minority shareholder interest.

Across Asia, Pakistani companies suffer mostly the count of a lack of responsibility to minority shareholders that effects fairness in dealing with shareholder groups.

Lack of regulatory protection for minorities is a key concern

The reason behind these problems is the nature of the shareholding structure and a lack of regulatory checks and balances requiring greater information dissemination for minority shareholders and penalties on proprietary trading. We believe our current CG rankings do not include potential changes in the shareholding structure and the regulatory environment, both of which are expected to alter resulting in an improving CG profile for our closely followed universe.

Flatter shareholding structure likely through privatisation and divestments

A change in the shareholding structure should be spurred through privatisation and further divestments by the government of its holdings in companies already privatised. The resulting flatter shareholding structure will force management to pay greater credence to minority shareholder interests both in terms of strategic decision making and information dissemination. Pakistan Telecom, of which the government holds 88%, is a case in point. The target is to offload a strategic stake by June 2001, followed by further divestments at later dates.

Information disclosure has improved in private and public sectors

Over the past five years, the nature of information companies make available has improved, in some cases drastically. Pakistani banks now have some of the most detailed balance sheets across the region and are required to disclose maturities of assets and liabilities, segment analysis by region and business, credit risk analysis, etc. The worst performer on the CG front, Pakistan Telecom, has also started quarterly reporting. Though the quality of data provided requires extensive work, the company is implementing MIS systems that will provide management with timely information thus improving the overall standard of their quarterly reports.

SECP has, and will, continue to protect minority interest

Another important trigger to enhancing CG standards will be the Securities and Exchange Commission of Pakistan (SECP) playing a more proactive role in regulating corporate affairs and working towards protecting minority shareholder interest. As a self financing and governing body, with majority membership from the private sector, the SECP has weak links to bureaucracy/ politicians and therefore is capable of acting in the interest of minorities without fear of reprisal. Should it choose to flex its muscles, the SECP can significantly raise CG standards. The risk however is that the body is still in a state of infancy and it will be some time before it is able to fully realise its potential.

Since its inception as an independent body, the SECP has become progressively more active in regulating corporate affairs. The table below lists relevant CG developments since January 2000.

SECP flexing its muscles

Significant CG developments since January 2000

Date	Event
January 2000	Khalid Mirza, resident representative of the IFC in Thailand appointed Chairman of SECP.
April 2000	Precedence set to allow shareholders owning above 10% equity to order investigation into the affairs of the company.
July 2000	SECP Chairman receives legal authority to remove member or Director of Stock Exchanges if irregularities are discovered. A Market Surveillance Cell was subsequently formed to investigate stock trading irregularities to the detriment of the minority shareholders.
August 2000	Haji Dossa Limited fined for not holding its AGM in time.
October 2000	Chief Executive and Directors Nafees Cotton fined for not complying with Company Law.
November 2000	Directors of Dandot Cement summoned for failure to return cash to shareholders on cancellation of rights issue.
December 2000	Listed companies to make meaningful disclosure before investing in associated companies for purposes of protecting shareholder and creditor interests.

Source: CLSA Emerging Markets

Regulating bourses and penalising management/directors has so far been SECP's focus

The central focus of the SECP has been protection of minority shareholder interest through greater regulation of Stock Exchanges and financial penalties for Directors and Management on non-compliance with company law. To date, minorities have suffered as management escaped reprimands for exclusively favouring majority shareholder groups – those days are coming to an end. So far the SECP has been looking after minority shareholder interest on a case by case basis, rather than implementing regulations that could provide a blanket cover for minorities. We believe such regulations may not be far off from requiring all listed companies to increase quality, frequency and timeliness of information disclosure and penalise undisclosed insider trading. Such regulations would allow minority shareholders to make more informed decisions and safeguard their interests from potential collusion between management and majority shareholders.

A curb on proprietary trading is not far off

For all companies in Pakistan, share-price reaction prior to results announcement is synonymous with the earnings performance. It can be assumed that proprietary information was passed on to trade the stock before the results announcement. Since July 2000, the SECP has been provided the powers to inspect brokers' books in case of irregularities without prior notice, and also requires all members (including their agents) to register with the SECP. Such regulations allow the SECP to monitor trading activities, and though specific cases involving proprietary trading have not yet been brought to its attention, the regulatory measures to protect minorities are present.

SECP's independence is key to its success

The structure of the SECP (as an independent body) and its actions to date suggest that it will continue to involve itself in corporate affairs with the primary focus of protecting minorities. Though Pakistan has moved forward in leaps and bounds on the CG front, with the inception of Khalid Mirza, the secret to SECP's success is in the independence it enjoys from bureaucratic/political interference. We believe this independence will allow SECP to exert greater pressure on corporates to conform to higher CG standards in the future.

In a nutshell, whereas it is clear that Pakistan is the worst performer on the CG front, the harbingers of change will be flatter share-ownership structures through privatisation and further divestment.

Best and worst in recent CG events

Information flow has improved at Lever Brothers

Within our universe, the company that has shown improvement on the CG front is Lever Brothers. Among the MNCs, Lever has the most open management. The company has adopted the practice of holding a detailed analyst briefings once a year where it is prepared to discuss its strategy and expectations openly. On the flip side, however, management is difficult to access for the remaining part of the year.

Lack of disclosure surrounding recent acquisition at Dewan Salman

Deterioration in CG was visibly apparent in the case of Dewan Salman Fibre. Its acquisition of a former competitor (Dhan Fibres) left many questions unanswered, in particular how the financing is being arranged. Also, the price paid for Dhan was more than twice the market price prior to newsflow regarding the acquisition. Minority shareholders were kept in the dark and no briefing was given to justify merits of the acquisition.

Reporting suffers at Pakistan Telecom

With the exit of Pakistan Telecom's former chairman, CG has suffered. The company no longer has a chairman that is non-executive. An immediate impact seen is in reporting; the company no longer provides accounts of its subsidiaries. However, the potential privatisation could alter the current CG setback at PTCL.

Companies with CG upside potential

Company	CG Score (%)	Events that could change CG score
Pakistan Telecom	18.95	❑ Privatisation and subsequent installation of a professional management. ❑ Further reduction in government stake through equity placements.
ICI Pakistan Ltd	30.7	❑ Taking up of strategic stake in PTA business by a large regional petrochemical player. ❑ Appointment of ICI plc employee to head Pakistani operations.
Pakistan State Oil	34.8	❑ Increasing competitive forces courtesy of deregulation in the oil & gas sector will improve discipline, transparency and independence.

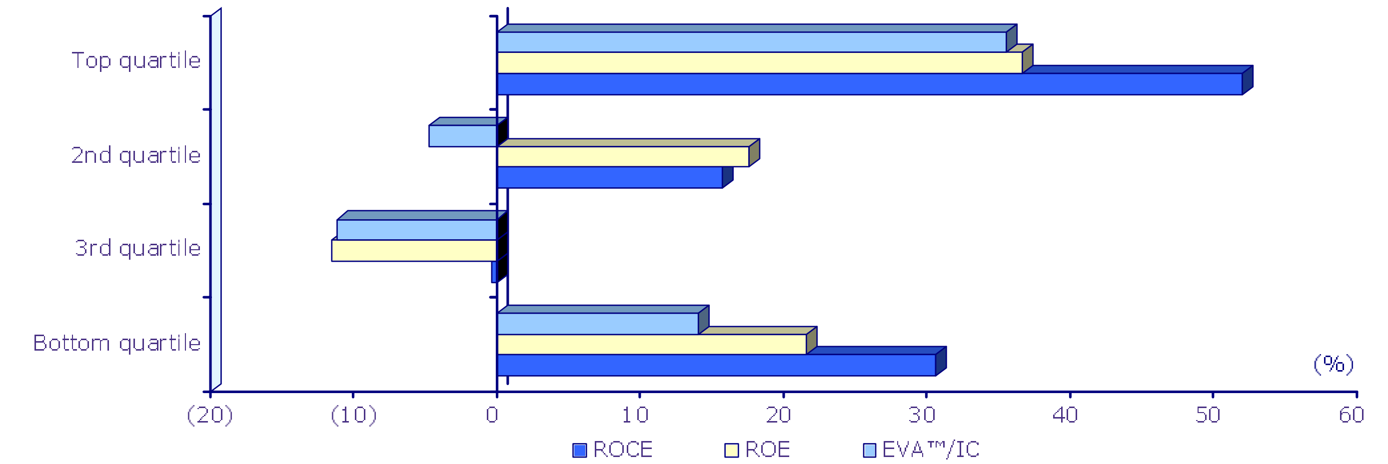
Source: CLSA Emerging Markets

Companies with CG downside risk

Company	CG Score (%)	Events that could change CG score
Engro Chemical	65.6	❑ The company is employee owned. Another hostile take-over bid could lead to management manipulation of stock price. ❑ Management attempt to shore up stock price to pacify employees forced to buy its shares to prevent take-over.

Source: CLSA Emerging Markets

CG to ROCE, ROE and EVA™/IC



Source: CLSA Emerging Markets

CG and financial ratios

	Quartile CG ranking				Average of
	Top	Second	Third	Bottom	Country basket
ROCE (%)	52	16	(0)	31	25
ROE (%)	37	18	(12)	22	16
EVA™/IC (%)	36	(5)	(11)	14	10

Source: CLSA Emerging Markets

Apparent correlation may be misleading

On the face of it there is an apparent positive correlation between CG and financial performance implying that companies scoring above average tend to offer higher returns and are value enhancers. While true in the case of Shell Pakistan, it is not so for Engro Chemical – two companies that constitute the upper quartile. Had it not been for lack of analyst contact, frequency of earnings announcements and reporting quality, all areas where Engro Chemical excels, Shell Pakistan would have taken the top slot. Though Engro is on top of our CG list for Pakistan, it performs below average on financial measures outlined above.

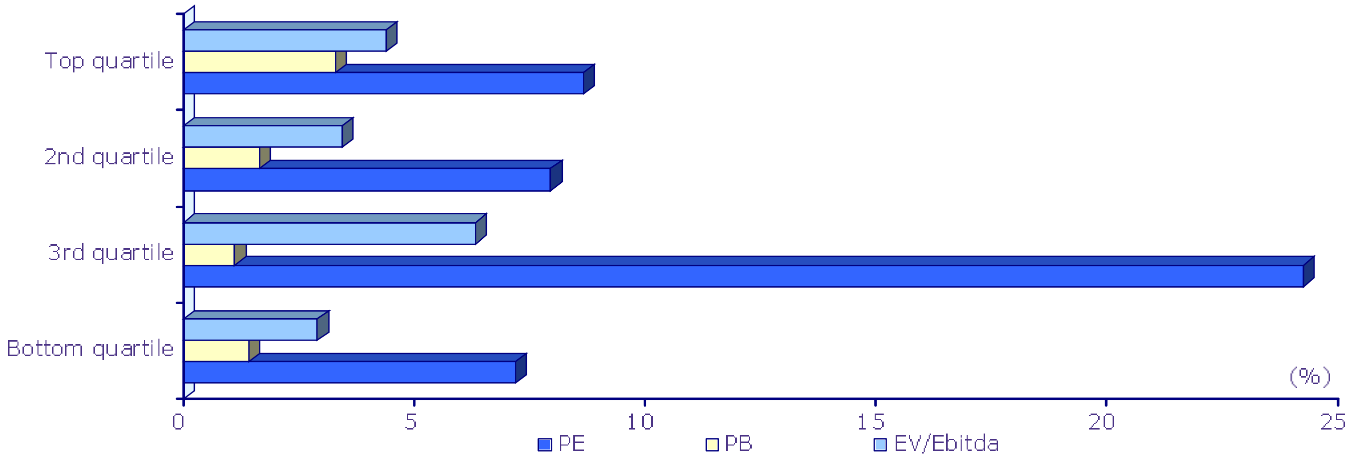
Lower score despite better financial performance

The lower quartile with a larger sample size is more representative. Though here too, discrepancies are apparent in that Pakistan Telecom and Fauji Fertilizer, with the lowest CG scores above average in terms of financial performance. A high pay-out ratio for both companies and strong cashflow are largely responsible for this, but there is little doubt that minority shareholder interest is of no significance to management of either company. In the case of Pakistan Telecom, however, this may change with privatisation.

Watch out for Pakistan Telecom and Fauji Fertilizer

Given our macro view of improving CG, laggards such as Pakistan Telecom and Fauji Fertilizer are interesting stocks to look out for as potential outperformers given above-average financial returns offered. While we are recommending a TR BUY on Fauji, Pakistan Telecom qualifies at best with a LT BUY, given the fixed-line nature of its business and sector deregulation from January 2003.

CG to PB, PE and EV/Ebitda



Source: CLSA Emerging Markets

CG and financial ratios

	Quartile CG ranking				Average of
	Top	Second	Third	Bottom	Country basket
PE (x)	8.7	8.0	24.3	7.2	12.4
PB (x)	3.3	1.6	1.1	1.4	1.9
EV/Ebitda (x)	4.4	3.4	6.3	2.9	4.1

Source: CLSA Emerging Markets

Companies in upper quartile command premium valuations

PB exhibits greater correlation to CG than does PE, as book value is more stable than earnings; and the seesaw earnings performance in 2000 (due to adoption of IAS 19) severely skewed PE, making it of little use for comparative purposes. Companies in the upper quartile of our CG scores do command premium valuations based on PB, but there is no difference in valuations between the average and that for companies in the lower quartile. Comparisons based on EV/Ebitda project a strong correlation, evidence to the fact that the domestic market not only provides a premium for good governance, but also focuses on Ebitda numbers. Engro is the clear winner on this front, trading at 5.3x 2000 EV/Ebitda, against 3.4x for Shell.

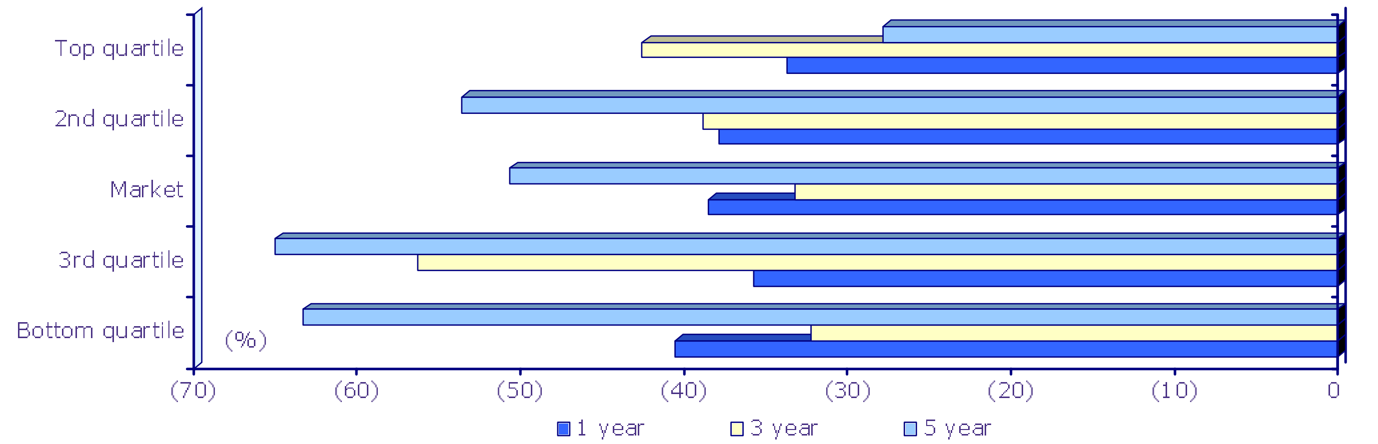
Valuations for Dewan Salman Fiber appear stretched given its CG standing

In the lower quartile, the two exceptions are Pakistan Telecom and Dewan Salman Fiber both with above average PB. The premium paid on book value for Pakistan Telecom is understandable based on its higher yield and thus above average ROE. In the case of Dewan Salman, an average ROE, 0% yield and a below average CG score fails to justify PB-based valuation. On EV/Ebitda, the discrepancy in valuations of Dewan Salman is more exaggerated, while Pakistan Telecom is at a discount to the average for the lower quartile.

Watch out for Shell Pakistan as a potential outperformer

Overall, the market does pay a premium for above average CG standards. Discrepancies are due to varying growth expectations with Shell Pakistan trading at -0.67x and Dewan Salman Fiber at 4.24x GPE.

CG and share-price performance



Source: CLSA Emerging Markets

CG and one-, three- and five-year share-price performance

	Quartile CG ranking				Average of
	Top	Second	Third	Bottom	Country basket
1-year share-price performance	(34)	(38)	(36)	(41)	(39)
3-year share-price performance	(43)	(39)	(56)	(32)	(33)
5-year share-price performance	(28)	(54)	(65)	(63)	(51)

Source: CLSA Emerging Markets

Five-year outperformance places Shell Pakistan at the top

The numbers above show a weak correlation between absolute performance in US$ and CG rankings. The highest correlation is witnessed when evaluating performance over the past five years during which period Shell Pakistan, the second-highest score for CG in Pakistan, stands out as the only stock in our universe that has given positive US$ returns. The 2.9% performance by Shell Pakistan, though small, is nevertheless in stark contrast to a 51% decline in the market.

Lowest ranking companies perform the worst

Over the past five years, price performance of our third- and fourth-quartile universes have been below average. Pakistan Telecom and Fauji Fertilizer at the lowest positions for CG in our ranking have led the losses. Pakistan Telecom's poor performance is surprising given that a third of its revenue is forex-denominated implying a currency hedge that should have allowed better performance in US$ terms. Nevertheless, investors who cleared Pakistan Telecom out of their portfolios outperformed.

Our top pick for outperformance is Lever Brothers Pakistan

Going forward, for companies that perform well on CG standards but which have had YTD price underperformance, we would pick Lever Brothers as a potential outperformer given its defensive characteristics. Secondly, for investors looking to bet on improving CG standards to come through privatisation, our choice would be Pakistan Telecom since it scores not only the lowest, but has underperformed the country Index by 11.8% in US$ terms last year and could make some of this back.

Pakistan companies sorted by CG

Company name	Discipline 15%	Transp. 15%	Indep. 15%	A/cability 15%	Resp. 15%	Fairness 15%	Social 10%	Wgtd avg 100%
Engro Chemical	77.8	66.7	66.7	77.8	77.8	33.3	55.6	65.6
Shell	44.4	30.0	78.6	37.5	33.3	22.2	100.0	46.9
Lever Brothers	22.2	30.0	78.6	50.0	33.3	27.8	66.7	43.0
Pakistan State Oil	55.6	30.0	14.3	37.5	16.7	22.2	83.3	34.8
MCB	55.6	40.0	7.1	12.5	33.3	27.8	66.7	33.1
ICI Pakistan Ltd	22.2	30.0	28.6	12.5	33.3	22.2	83.3	30.7
Askari Bank	33.3	40.0	14.3	12.5	16.7	27.8	66.7	28.4
Hub Power	33.3	20.0	14.3	25.0	0.0	22.2	83.3	25.6
Dewan Salman	33.3	33.3	33.3	22.2	22.2	16.7	11.1	25.3
Fauji Fertilizer	22.2	22.2	22.2	22.2	22.2	16.7	22.2	21.4
Pakistan Telecom	33.3	10.0	14.3	12.5	16.7	16.7	33.3	18.9

Source: CLSA Emerging Markets

Patterns in the scores – Pakistan

	Question	"Yes" score in in country sample (%)	Comments
1	Explicit public statement placing a priority on CG	45.5%	Less than half the companies have issued corporate governance mission statements. The most recent entrant to this group is Pakistan State Oil.
2	Management incentivised towards a higher share price	18.2%	There are no formal incentives in place that could provide impetus to management to work for a higher share price. The exceptions to the rule is Engro Chemical since it is employee owned.
3	Sticking to clearly defined core businesses	81.8%	The vast majority of companies do not digress from core business activities. There may however be cases of providing unsecured loans to sister concerns facing financial difficulties, though this activity is being regulated strictly by the SECP.
4	Having an appropriate estimate of cost of equity	9.1%	Management was not contactable, though formal studies are seldom carried out by management as raising funds through equity markets is not a common practice.
5	Having an appropriate estimate of cost of capital	9.1%	Management was not contactable.
6	Conservatism in issuance of equity or dilutive instruments	63.6%	Equity issues in the last 5 years have been few and far between. The case that however stands out is that of ICI Pakistan's series of rights issues partly to finance their PTA venture.
7	Ensuring debt is manageable, used only for projects with adequate returns	9.1%	Companies generally do not follow a philosophy of enhancing value from incremental investments and there is no clear precedence to suggest that debt is used only when returns are in excess of cost. In the cases of certain government owned companies debt has been taken in excess ROA, simply because the company did not posses internal cash.
8	Returning excess cash to shareholders	81.8%	Pakistani companies favor a high dividend payout policy, even when it may be destroying value. Cash buildup jeopardising ROE thus does not occur in the majority of cases.
9	Discussion in Annual Report on corporate governance	36.4%	Companies pay little credence to corporate governance standards and thus there is little to review. The exceptions are however, Engro Chemical, Shell Pakistan, Paksistan State Oil and ICI Pakistan.
10	Disclosure of financial targets, eg 3-5 year ROA/ROE	0.0%	No such targets have ever been made available.
11	Timely release of Annual Report	63.6%	Most companies produce their annual reports within four months. Incidences of delay beyond four months is generally in the case of public sector companies or in cases where major disputes are outstanding.
12	Timely release of semi-annual financial announcements	81.8%	As above
13	Timely release of quarterly results	9.1%	There are no legal requirements for quarterly reporting, however, Engro Chemical is an exception while Pakistan Telecom too is gaining ground.
14	Prompt disclosure of results with no leakage ahead of announcement	0.0%	Most companies announce their results within 2 working days of the Board meeting to confirm the results. In all cases share prices move ahead of the actual results announcement.

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Patterns in the scores – Pakistan (continued)

	Question	"Yes" score in in country sample (%)	Comments
15	Clear and informative results disclosure	18.2%	Reporting is NOT clear or informative by any stretch of the imagination. Exception however is the banking sector that produces among the most detailed reports across Asia due to pressure from the Central Bank.
16	Accounts presented according to IGAAP	100.0%	Standards of accounting reporting are upto scratch and given the vertically oriented shareholder structure there has been little need felt to manipulate profits. The SECP now requires auditors to register with the regulator, a process that will protect minorities from potential account fudging.
17	Prompt disclosure of market sensitive information	0.0%	Disclosure of sensitive information is seldom made and it is certainly not a practice.
18	Accessibility of investors to senior management	9.1%	Good access to management is present only in the case of Engro Chemicals.
19	Web-site where announcements updated promptly	0.0%	Most companies have english language web sites, though results are seldom placed there.
20	Board and senior management treatment of shareholders	18.2%	The close relationship shared between top management and major shareholders has resulted in decisions made to the detriment of minorities.
21	Chairman who is independent from management	45.5%	In more than half of the companies in our sample, the Chairman is not an independent director.
22	Executive decisions by management committee comprised differently from Board	45.5%	This is not often the case given the influence exerted by majority shareholsers.
23	Audit committee chaired by independent director	18.2%	This is seldom the case.
24	Remuneration committee chaired by independent director	18.2%	As above
25	Nominating committee chaired by independent director	0.0%	Companies do not have nominating committees, or atleast they are not chaired by independent directors.
26	External auditors unrelated to the company	100.0%	In all cases that we know of, the auditors are independent of the company.
27	No representatives of banks or other large creditors on the Board	72.7%	Few companies have direct representatives of banks or major creditors.
28	Board plays a supervisory rather than executive role	45.5%	Board members and management are not substantially different.
29	Non-executive directors demonstrably independent	45.5%	The inclusion by NIT (largest open ended mutual fund) of its nominees has increased the incidence of non-executive directors being demonstrably independent.
30	Independent, non-executive directors at least half of the Board	27.3%	Less than a third of the companies have more than half the Board being independent directors.
31	Foreign nationals presence on the Board	54.5%	Thanks to a number of MNCs in our universe this figure is high, there are very few foreign national on the board of companies.
32	Full Board meetings at least every quarter	27.3%	Lack of quarterly reporting implies that full board meetings are held semi-annually.

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Patterns in the scores – Pakistan (continued)

	Question	"Yes" score in in country sample (%)	Comments
33	Board members able to exercise effective scrutiny	0.0%	Board members are seldom briefed properly. In most cases management lays out performance with little analysis as to the causative factors that could allow effective scrutiny.
34	Audit committee that nominates and reviews work of external auditors	9.1%	As above
35	Audit committee that supervises internal audit and accounting procedures	9.1%	As above
36	Acting effectively against individuals who have transgressed	54.5%	There is little evidence to suggest that the company has acted effectively against such individuals.
37	Record on taking measures in cases of mismanagement	9.1%	As above
38	Measures to protect minority interests	0.0%	Minority shareholder interest is invariably not a concern of management.
39	Mechanisms to allow punishment of executive/management committee	0.0%	Within companies such mechanisms do not exist though the SECP has set precedence to allow a shareholding of 10% as sufficient to order investigation into management affairs.
40	Share trading by board members fair and fully transparent	0.0%	Insider trading is never disclosed.
41	Board small enough to be efficient and effective	72.7%	The Board sizes in our sample ranged from 8 to 16 with the average Board size being 11.1.
42	Majority shareholders treatment of minority shareholders	0.0%	As mentioned above, lack of protection awarded to minorities has resulted in management decision making invariably to the benefit of the majority shareholders.
43	All equity holders having right to call General Meetings	100.0%	In general, the shares owned by minorities are ordinary shares where all shareholders can call for General Meetings.
44	Voting methods easily accessible (eg through proxy voting)	100.0%	Proxy voting is allowed and methods are easily accessible.
45	Quality of information provided for General Meetings	0.0%	Information disclosure is among the weakest points.
46	Guiding market expectations on fundamentals	9.1%	Senior management seldom offers any form of guidance, either with respect to fair value of the stock, or business fundamentals.
47	Issuance of ADRs or placement of shares fair to all shareholders	100.0%	In some cases, majority shareholders have sold at peak prices.
48	Controlling shareholder group owning less than 40% of company	18.2%	In most cases, the major shareholder owns more than 40% of the company and in the case of public sector companies, as high as 90%.
49	Portfolio investors owning at least 20% of voting shares	45.5%	This figure has sharply reduced over the last five years with fewer companies enjoying foreign shareholding.
50	Priority given to investor relations	18.2%	In majority of cases there is no investor relations department.

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Patterns in the scores – Pakistan (continued)

	Question	"Yes" score in in country sample (%)	Comments
51	Total Board remuneration rising no faster than net profits	27.3%	Available information suggests remunerations ranging between 1-4.5% of net profits. In most cases remunerations have grown faster than earnings particularly due to a slowdown in earnings over 2000.
52	Explicit policy emphasising strict ethical behaviour	27.3%	Nearly 30% of the companies have a public statement emphasizing ethical behaviour.
53	Not employing the under-aged	100.0%	Companies in our universe do not employ the underaged, but there are no provisions for not procuring from industries employing the underaged.
54	Explicit equal employment policy	63.6%	In most cases there is no discrimination against minorities on grounds of race or religion.
55	Adherence to specified industry guidelines on sourcing of materials	90.9%	Most companies, particularly multinationals do stick to such guidelines.
56	Explicit policy on environmental responsibility	45.5%	Nearly half the companies in our universe have clearly worded guidelines on environmental protection.
57	Abstaining from countries where leaders lack legitimacy (Myanmar)	100.0%	No Pakstani company has any investment / operation in Myanmar.

Source: CLSA Emerging Markets

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Philippines – Quagmire

High CG BUYs/Low CG SELLs

Company	CG Score (%)	Re-rating drivers
High CG BUYS		
PLDT	67.9	Unrelenting mobile growth; ceasefire on international rate competition. BUY.
ABS-CBN	56.1	Rate uncoupling provides effective 12-15% rate increase; pricing power. BUY.
SM Prime	55.6	Consumer confidence growth-recovery play. BUY.
BPI	54.3	Under-valued against peers; opening-up of foreign ownership limit provides re-rating catalyst. BUY.
Low CG SELLs		
Metro Pac	25.8	High-end property remains at a standstill for 2 years or more. SELL.
EBC-PCI	30.0	In need of a P7bn capital infusion; uncertain future until govt stake disposed. SELL.
SMC	36.6	Likely battle over management control; unexciting growth prospect over the next 12 months. SWITCH to SMPH.
ALI	38.8	Property sector to remain stuck in a rut. SELL.
Piltel	40.7	In the red for the next 3+ years thanks to depreciation and finance charges. SELL.

Source: CLSA Emerging Markets

Latest CG developments

Country ratings for macro determinants of CG

	Rating (1-10)
Rules and regulations	5
Enforcement and regulation	2
Political/regulatory environment (ie, interference)	2
Adoption of IGAAP	5
Institutional mechanisms and CG culture	4

Source: CLSA Emerging Markets

Actions required to confirm good governance agenda of new administration

Although not formally collated under a CG umbrella, a multitude of rules and regulations do exist for the Philippines at the various regulatory levels. History has shown, however, that a lot can slip through the cracks, or new cracks can be made. The Philippine Stock Exchange (PSE) and Securities and Exchange Commission (SEC) are empowered to investigate and impose penalties, but the process itself is laden with legal delays and loopholes; especially with less-publicised cases. It is not only in the area of CG implementation that there has been shortcomings, but also in areas such as the execution of other laws and reforms such as the liberalisation of the oil industry or even the application of supposedly automatic formulas for price adjustment resulting in poor financial performance and investor returns. The new government of President Gloria Macapagal Arroyo has adopted good governance as part of the key agenda for change, but a true test of resolve still awaits. The resolution of the much-ballyhooed BW Resources market fiasco could be the first real test.

Some improvement on disclosure

One area where the regulators have gradually continued to improve upon – and hence Philippine companies will likely score better on in the future – is in improving the timing and level of disclosure for interim results. The 45-day rule for disclosure of quarterly results is strictly enforced by the SEC. Meanwhile, auditors have gained ground in issuing opinions on audited results (post the Piltel and Victorias Milling debt restructuring debacles) and are moving for greater adoption of IGAAP standards. Exposure draft #37, which we featured in a report last November ("Pandora's box"), at the very least will result in companies disclosing what the impact of forex volatility has on their foreign debt positions had IGAAP standards been used. At the extreme, companies will actually implement such standards, but that would probably lead to a substantial amount of debt renegotiations commencing.

Smaller country-centric businesses have less impetus to improve

Although some corporations are steadily realising the importance of adopting better governance and especially taking care of the interests of minorities, for the market in general this is not the case. Part of this is due to the ingrained system where companies are generally controlled by the families or groups that initially founded them and which usually hold an overwhelming share ownership and management control. Part of this is caused by the natural limitation imposed by the general 40% foreign ownership barrier. With relatively smaller companies with primarily country-centric businesses, the evolution of audit, nominating and remuneration committees is not going to be common (or cost effective) for the market in general. The CG rating for the Philippines looks at best to face undramatic but gradual improvement, thanks to various hurdles that need to be overcome.

Best and worst in recent CG events

Sad fact?

It may be partly due to the darker side of human nature to recall bad events rather than the good ones, but we are hard-pressed to recall any outstandingly good illustration of CG seen over the past 12 months. On the other hand, it's more likely a reality that although there are corporates (mostly the blue chips) that practice good governance, you will not find any high profile cases where controversial governance issues are quickly and emphatically resolved. Resolutions tend to be long drawn-out affairs thanks to legal proceedings.

BW Resources a classic case of price manipulation

When it comes to the worst of governance the hands-down winner is the scandal that played a role in the downfall of the Estrada administration: BW Resources. Most forms of stock-price manipulation were allegedly utilised in driving up the share price of what would have been the gaming stock of the Philippines. Its downfall even contained classic tales of betrayal amongst erstwhile allies and the alleged cover-up attempted by then-President Estrada for a good friend. The new government is seeking to make the prosecution of the BW participants the first example on its agenda for prioritising good governance and justice. If successful, this would be the first major triumph for CG in recent times. The way lawsuits pan out, however, we would not hold our breath for a quick outcome.

Controversial acquisition of stake in PNB

In yet another controversy involving an Estrada friend, Lucio Tan's acquisition of two-thirds of PNB is a case of masterful strategy at the expense of minorities. By promising to purchase the government's stake in the bank, Tan was able to get the support of the authorities in approving a rights issue that in the end only he subscribed to. He then backed out of buying the government's stake but nonetheless ended up with the two-thirds control he required. Due to the recent turn of political events, he is now willing to sell out with the government – if there are takers.

The small scale version of the same method

Belle Corp disclosed in September 2000 a plan to issue new warrants to the holders of a previous warrant issue that was nearing expiration in October. The declaration created a market for the expiring warrant. However, after these expired, Belle did not go ahead with the new warrants. Ostensibly, the warrant issue should have coincided with a rights issue but market conditions could not support this. Whatever the real reason, investors who went in for the expiring warrants were burned.

A thing for buybacks

Late last year, San Miguel made a proposal to the SEC that would allow companies to buy back their own shares with the intention of selling them later; ie, to trade their own shares. The potential for conflict of interest did not appear as an objection. Although the SEC maintains that buybacks be retired into treasury shares, there is already a precedent for taking shares out of treasury and re-selling them to the market.

Companies with CG upside potential

Company	CG Score (%)	Events that could change CG score
BPI	54.3	❑ DBS and Sakura Bank own 28%; planned increase in foreign available free float by 10-15%.
SMC	36.6	❑ Potential change or reform in management.
EBC-PCI	30.0	❑ Reduced influence of government post sale of stake; potential foreign partner.

Source: CLSA Emerging Markets

Companies with CG downside risk

Company	CG Score (%)	Events that could change CG score
PLDT	67.9	❑ If fund raising for GMA fails, PLDT could shoulder the cost.
Benpres	35.2	❑ If more equity infused into projects with no contingent liability.
RFM	33.4	❑ If subsidiary cash is used to rescue parent's debts.

Source: CLSA Emerging Markets

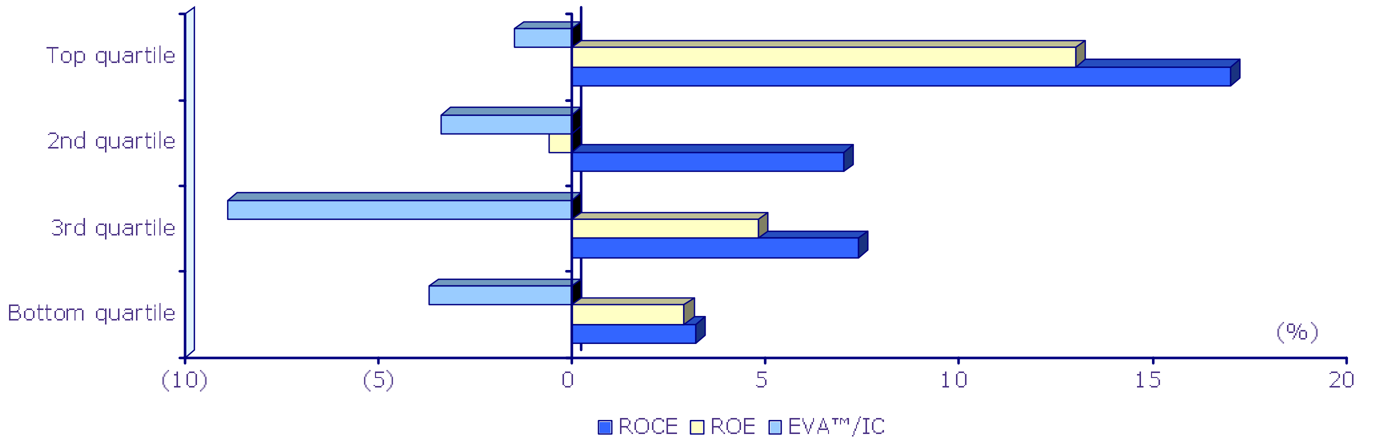
CG and financial performance

CG to ROCE, ROE and EVA™ for Philippines sample

	Quartile CG ranking				Average of
	Top	Second	Third	Bottom	Country basket
ROCE (%)	17.0	7.0	7.4	3.2	9.8
ROE	13.0	(0.6)	4.8	2.9	5.1
EVA™/IC	(1.5)	(3.4)	(8.9)	(3.7)	(4.4)

Source: CLSA Emerging Markets

CG to ROCE, ROE and EVA™/IC



Source: CLSA Emerging Markets

- Our scoring of a select sample of Philippine companies yielded one clear result: the top quartile in CG rankings on average displayed the superior financial ratios – viz. ROCE (17.0%), ROE (13.0%) and EVA™/invested capital (-1.5%) – versus the overall sample. The relatively less capex-intensive businesses such as that of ABS-CBN, La Tondena and SM Prime stand out particularly well; although SM Prime's cash hoard depresses its ROE levels. In the second quartile of CG rankings, Jollibee stands out for delivering value. Telecom companies PLDT and Globe lead in CG scores primarily thanks to good disclosure scores but their businesses involve long gestation returns which affects current ratios for EVA™.
- The bottom half of our CG scores highlight the overall market trend of poor financial performance in the continued crisis years. However, it is probably not their corporate structures and practices that have dragged their returns, but rather the cyclical nature of their markets. To illustrate, the mix of companies in the bottom half are primarily banks, property companies and conglomerates.
- However, our top picks – ABS-CBN, SM Prime and La Tondena – deliver on financial returns and also give investors the additional comfort of relatively better CG standards than the market. Meanwhile, most of our SELLs/SWITCHes such as Ayala Land, San Miguel, Equitable-PCI, Metro Pacific and Piltel are CG cellar dwellers.

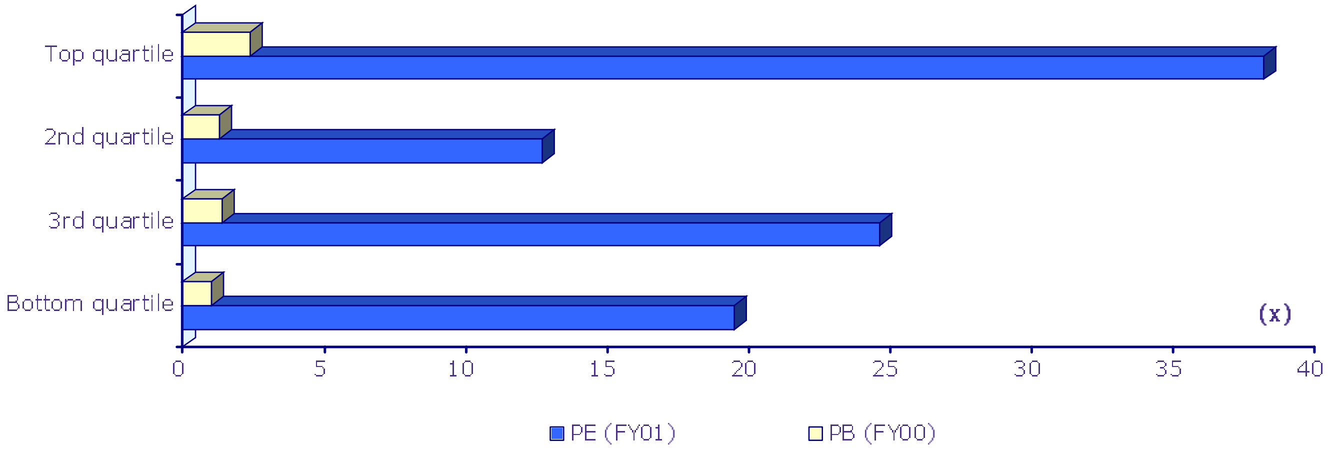
CG and valuations

CG to PE and PB for Philippines sample

	Quartile CG ranking				Average of
	Top	Second	Third	Bottom	Country basket
FY01 PE (x)	38.2	12.7	24.6	19.5	24.9
FY00 PB (x)	2.4	1.3	1.4	1.0	1.5

Source: CLSA Emerging Markets

CG to PE and PB



Source: CLSA Emerging Markets

- Our top CG quartile displayed a higher PE average of 38.2x relative to the entire sample at 24.9x. The results are skewed by telecom companies which are generally valued using EV/Ebitda resulting in higher PEs. Removing these from the set shows that many lower CG stocks have higher PEs than our top of the rung ones. This is largely a factor of a number of the lower CG stocks being part of the blue chips and/or market heavyweights leading to premium valuations. For the second CG quartile in the market, the PEs of companies like Jollibee and Ionics are low, attributable to their relatively limited liquidity.
- On PB, the ROE leaders (ABS-CBN, La Tondena, Jollibee), who also have relatively high CG, naturally have the premium valuations. Thus, the top quartile of our CG sample has the richest PB at 2.4x versus the sample average of 1.5x. Once more, there are stocks at the lower CG rung that beat the sample average but again this is largely the market heavyweight effect.
- With the exception of blue chip Ayala Corp, conglomerates that theoretically should be trading closer to NAV are actually trading below book value as a reflection of the risks in their particular business interests.

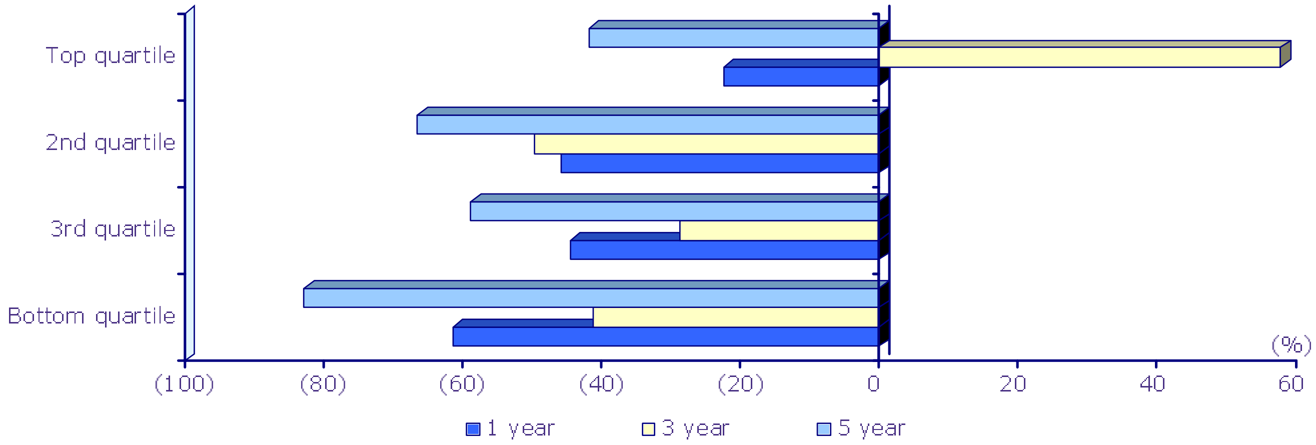
CG and share-price performance

Share-price returns (US$) to end-2000

	Quartile CG ranking				Average of
	Top	Second	Third	Bottom	Country basket
1-year share-price performance (%)	(22.4)	(45.9)	(44.4)	(61.3)	(43.5)
3-year share-price performance (%)	57.9	(49.6)	(28.7)	(41.2)	(15.4)
5-year share-price performance (%)	(41.7)	(66.5)	(58.8)	(82.8)	(62.4)

Source: CLSA Emerging Markets

CG rankings and one-, three- and five-year share-price performance to end-2000



Source: CLSA Emerging Markets

- The dismal US$ returns on average over a one-year, three-year and five-year period to end-2000 was mitigated partially in the top quartile CG companies. Their average prices declined by 22% over the past year versus the 44% decline in the whole sample. The blip of massive absolute performance in year three for the top quartile was brought on by a single stock, Globe Telecom as its previously illiquid shares were boosted by the issuance of a new instrument.
- The relatively better performance of the third quartile over the last three years is a factor of three major blue chips (San Miguel, Ayala Land and Ayala Corp) in that quartile. Index-based buying thus prevented as steep a fall even versus the second quartile that with the exception of Meralco are made up of less liquid issues.
- We believe improved CG in the three blue chips in the third quartile would boost their share price performances: although investors equate a high degree of trust with the Ayala group, better disclosure and guidance of investors would still be a further positive. For San Miguel, potential improvement in CG and price performance could come as the management control issue is resolved.

Philippines companies sorted by CG

Company name	Discipline 15%	Transp. 15%	Indep. 15%	A/cability 15%	Resp. 15%	Fairness 15%	Social 10%	Wgtd avg 100%
PLDT	55.6	70.0	78.6	37.5	50.0	94.4	100.0	67.9
La Tondeña Distillers, Inc	55.6	40.0	85.7	50.0	50.0	77.8	100.0	63.9
ABS-CBN	66.7	50.0	71.4	25.0	50.0	66.7	66.7	56.1
SM Prime Holdings, Inc	44.4	30.0	71.4	25.0	66.7	77.8	83.3	55.6
Globe	33.3	70.0	78.6	37.5	50.0	33.3	100.0	55.4
BPI	55.6	50.0	78.6	50.0	16.7	66.7	66.7	54.3
Ionics Inc	55.6	60.0	64.3	25.0	33.3	77.8	66.7	54.1
Jollibee Foods Corp	66.7	40.0	28.6	25.0	83.3	38.9	100.0	52.4
Manila Electric Co	33.3	40.0	71.4	25.0	50.0	72.2	50.0	48.8
Piltel	33.3	50.0	64.3	12.5	33.3	11.1	100.0	40.7
San Miguel Corp	33.3	30.0	42.9	37.5	16.7	27.8	83.3	36.6
Ayala Corp	22.2	40.0	21.4	62.5	33.3	16.7	66.7	36.1
Benpres	33.3	40.0	14.3	25.0	33.3	33.3	83.3	35.2
First Phil Holdings	33.3	50.0	14.3	25.0	33.3	33.3	66.7	35.1
Ayala Land	55.6	40.0	21.4	25.0	16.7	16.7	83.3	34.6
RFM	11.1	40.0	21.4	50.0	33.3	11.1	83.3	33.4
Metrobank	33.3	40.0	21.4	37.5	33.3	11.1	50.0	31.5
Equitable-PCI Bank	11.1	40.0	21.4	50.0	16.7	16.7	66.7	30.0
Filinvest Land	44.4	30.0	21.4	25.0	16.7	16.7	66.7	29.8
Metro Pacific	33.3	20.0	21.4	25.0	0.0	16.7	83.3	25.8

Source: CLSA Emerging Markets

Patterns in the scores – Philippines

	Question	"Yes" score in in country sample (%)	Comments
1	Explicit public statement placing a priority on CG	20.0%	Handful of companies (PLDT, Globe, BPI and Ionics) actually had an explicit statement. Listed and unlisted small companies are more pre-occupied with surviving these days rather than setting aside time (and a budget for an human resource person or consultant) to make these.
2	Management incentivised towards a higher share price	25.0%	The general structure of large business groups and families involves a significant amount of diversification of their portfolios. Filipino-Chinese and Filipino-Spanish groups in particular have been fond of this structure. Non-family member top tier management of course generally have more than 50% of their net worth in their company.
3	Sticking to clearly defined core businesses	65.0%	The pure plays generally stay as such as the large business groups use their listed conglomerates to diversify their portfolio. If the small cap mining and oil firms are included then this 65% would be significantly lower – down to <20% probably.
4	Having an appropriate estimate of cost of equity	50.0%	A broader survey sample would definitely yield less positive responses (not because unwilling to disclose but likely have not computed). For the most part, companies surveyed that disclosed CoE were within the CLSA estimates.
5	Having an appropriate estimate of cost of capital	45.0%	A broader survey sample would definitely yield less positive responses (not because unwilling to disclose but likely have not computed). For the most part, companies surveyed that disclosed WACC were within the CLSA estimates.
6	Conservatism in issuance of equity or dilutive instruments	35.0%	Disconcerting number in light of the fact that there were very few opportunities to raise new equity since the 1997 Asian crisis.
7	Ensuring debt is manageable, used only for projects with adequate returns	55.0%	In principle most of the companies are conscious of project ROI and asset-liability matches but in practice they have burned thanks to foreign exchange risks.
8	Returning excess cash to shareholders	65.0%	Ironically, the companies guilty of diluting ROE via cash build-up are actually the companies with higher than average ROE. The norm for most companies is that their low ROEs are driven by crisis hit profits.
9	Discussion in Annual Report on corporate governance	5.0%	Not a standard practice. So far only PLDT will start implementing this.
10	Disclosure of financial targets, eg 3-5 year ROA/ROE	0.0%	No one willing to disclose forward looking statements as per stock exchange rules. (A convenient excuse for most.)
11	Timely release of Annual Report	90.0%	Generally standard practice thanks to shareholders meetings scheduled in May.
12	Timely release of semi-annual financial announcements	100.0%	60-day submission after every quarter is enforced by the SEC.
13	Timely release of quarterly results	100.0%	As above

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Patterns in the scores – Philippines (continued)

	Question	"Yes" score in in country sample (%)	Comments
14	Prompt disclosure of results with no leakage ahead of announcement	25.0%	Whether intentional or not, companies have left themselves open to mistrust given the gap between disclosure. Certain companies have moved to reform this in the past 2 quarters however.
15	Clear and informative results disclosure	30.0%	Explanation of results are mostly sparse but SEC report requirements have begun to improve discussion on balance sheet movements. Generally, the telecom and media companies excel in this category.
16	Accounts presented according to IGAAP	10.0%	Only PLDT releases IGAAP versions of its financial statements due to the requirements of its ADR listing in New York. Other companies are gradually stepping up disclosure by disclosing IGAAP impact on certain accounts but do not show full IGAAP reconciled financial statements.
17	Prompt disclosure of market sensitive information	5.0%	The press or market pundits generally get a whiff of potential news (albeit never entirely correct) before the public.
18	Accessibility of investors to senior management	40.0%	Telecoms, media and power lead the pack in giving analysts access to information and providing briefings and calls to discuss important events.
19	Web-site where announcements updated promptly	35.0%	Few companies have web sites much less update for results and announcements regularly.
20	Board and senior management treatment of shareholders	45.0%	Conglomerates are the worst offenders in this category especially during the days of excess prior to the Asian crisis where such companies in one way or another suddenly found themselves entering the property development business.
21	Chairman who is independent from management	15.0%	Companies with a chairman who does not hold a management position is rare.
22	Executive decisions by management committee comprised differently from Board	65.0%	Conglomerates and banks generally are the laggards in this category.
23	Audit committee chaired by independent director	45.0%	The big cap stocks are generally providing the weight of the score.
24	Remuneration committee chaired by independent director	5.0%	Not a standard practice. Generally immediate superiors and top management handle it.
25	Nominating committee chaired by independent director	5.0%	As above
26	External auditors unrelated to the company	90.0%	Much improved from 1998 when auditors would sit on the board of directors. Several incidences of financial distress and debt restructuring changed that.
27	No representatives of banks or other large creditors on the Board	100.0%	Generally no creditors sit in management or board positions except for some listed companies undergoing restructuring.
28	Board plays a supervisory rather than executive role	60.0%	The higher score will not hold up if the sample size is expanded to include mid- to small-cap companies who by virtue of their size and sometimes family-owned structure replicate board and management functions.

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Patterns in the scores – Philippines (continued)

	Question	"Yes" score in in country sample (%)	Comments
29	Non-executive directors demonstrably independent	45.0%	Surveyed banks have the edge here but similar to question #28, a sample size expansion will deteriorate the score substantially.
30	Independent, non-executive directors at least half of the Board	30.0%	No signs of this improving in the near future.
31	Foreign nationals presence on the Board	35.0%	Telecom companies, thanks to strategic foreign partnerships, lead in this category. Conglomerates that score the worst on transparency and independence have such representatives (who in practical terms cannot stop the board with their vote anyway).
32	Full Board meetings at least every quarter	100.0%	As partly an offshoot of results required to be disclosed every quarter by SEC.
33	Board members able to exercise effective scrutiny	0.0%	Mostly unable to contact an independent director willing to give comments to verify.
34	Audit committee that nominates and reviews work of external auditors	0.0%	As above
35	Audit committee that supervises internal audit and accounting procedures	0.0%	As above
36	Acting effectively against individuals who have transgressed	40.0%	Once again, increased sample size would drop this score substantially for the market overall.
37	Record on taking measures in cases of mismanagement	10.0%	Punishment generally consists of removal but prosecution in court is another matter altogether.
38	Measures to protect minority interests	50.0%	Top tier companies will not undertake major transactions without independent party verification but the smaller companies will not. Larger sample size would bring down the score substantially.
39	Mechanisms to allow punishment of executive/management committee	50.0%	Larger corporations have the mechanisms in place; not so for the greater part of the market. As mentioned, implementation of such mechanisms is also not followed through in general.
40	Share trading by board members fair and fully transparent	0.0%	This score would be next to nil even if applied on a broader survey. Movements are reported to the exchange but a substantial portion cannot be tracked as these are lodged in street certificates.
41	Board small enough to be efficient and effective	65.0%	This score would actually improve with a wider sample as the smaller caps have smaller boards and more focused businesses.
42	Majority shareholders treatment of minority shareholders	35.0%	Conglomerates are questioned over this the most.
43	All equity holders having right to call General Meetings	35.0%	The increase in non-voting instruments (partially to circumvent foreign ownership restrictions) among the larger cap companies results in this low score. Broadening the survey base would actually enhance the market score.
44	Voting methods easily accessible (eg through proxy voting)	90.0%	Widely accessible but generally not utilized by minorities.

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Patterns in the scores – Philippines (continued)

	Question	"Yes" score in in country sample (%)	Comments
45	Quality of information provided for General Meetings	50.0%	Worse score if broader sample.
46	Guiding market expectations on fundamentals	40.0%	Telecom and consumer companies are pro-active on this front. Score would worsen on broader base of survey though.
47	Issuance of ADRs or placement of shares fair to all shareholders	70.0%	Not much incidence or risk of this given market conditions and investor wariness over the past 2-3 years.
48	Controlling shareholder group owning less than 40% of company	25.0%	Low score partly due to 40% foreign ownership limit but also thanks to family-owned businesses wanting to remain in control.
49	Portfolio investors owning at least 20% of voting shares	5.0%	Tracking actual funds invested in a company is generally unavailable/confidential. Investors generally passive at least in public and have not engaged management on CG issues.
50	Priority given to investor relations	55.0%	Expand sample size and score will drop since smaller companies have no investor relations as a separate department. CEO or CFO would facilitate but not in the overall market.
51	Total Board remuneration rising no faster than net profits	50.0%	Score would worsen under broader survey.
52	Explicit policy emphasising strict ethical behaviour	25.0%	As above
53	Not employing the under-aged	95.0%	Representative of the general publicly listed market.
54	Explicit equal employment policy	90.0%	As above
55	Adherence to specified industry guidelines on sourcing of materials	95.0%	Score would worsen under broader survey.
56	Explicit policy on environmental responsibility	65.0%	As above
57	Abstaining from countries where leaders lack legitimacy (Myanmar)	100.0%	Philippine companies concentrate their market and/or their facilities locally.

Source: CLSA Emerging Markets

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Singapore – Heading for best

High CG BUYs/Low CG SELLs

Company	CG Score (%)	Re-rating drivers
High CG BUYS		
Singapore Airlines	85.7	Requires global economic outlook to improve before stock can re-rate up. BUY.
Neptune Orient Lines	84.0	Ability to show strong earnings through down-phase of global economic cycle will lead to re-rating. BUY.
Singapore Press Holdings	80.5	The only Singaporean company willing to provide free contact with independent director. BUY.
ST Engg	72.7	Relative resilience of earnings with key customer being the Singapore government will improve ratings. BUY.
SembCorp Marine	72.6	Strong order books provide certainty into the next two years. Steady cashflow being returned to shareholders. 7+% dividend yield. BUY.
Low CG SELLs		
First Capital Corp	46.7	Missing restructuring targets. Lack of transparency. SELL.
Allgreen	51.7	Not transparent about financial targets. SELL.
Wing Tai	54.5	Weak cashflow and high gearing makes this stock risky in this uncertain residential environment. SELL.
Parkway	55.9	Used to impress with selling of non-core property portfolio but now still saddled with loss-making London Heart hospital and other problematic investments. SELL.
Keppel Land	56.0	Talks about divesting commercial properties but no action taken. Continues to raise capital for investments. Parent acknowledges that 11% ROE hurdle is too high for this subsidiary. SELL.

Source: CLSA Emerging Markets

Latest CG developments

Country ratings for macro determinants of CG

	Rating (1-10)
Rules and regulations	9
Enforcement and regulation	7
Political/regulatory environment (ie, interference)	6
Adoption of IGAAP	9
Institutional mechanisms and CG culture	7

Source: CLSA Emerging Markets

CG definition in Singapore has taken on both performance and accountability aspects

In evaluating CG issues, the Singapore government has adopted a very broad definition: "Corporate governance refers to the processes and structure by which the business and affairs of the company are directed and managed in order to enhance long-term shareholder value. This is achieved by focusing on heightened performance and accountability, while taking into account the interests of other stakeholders. Good corporate governance therefore embodies both enterprise (performance) and accountability (conformance). " [Source: Corporate Governance Committee consultation document, Nov 2000] This all-encompassing definition is key to understanding why the CG reform that is taking place within the historically sedentary confines of island-Singapore will be sweeping.

The importance of good CG is a result of Singapore's aim to remain a key investment capital in Asia

The issue of CG is particularly important to Singapore due to its aim in staying a key investment capital within Asia. Singapore cannot beat the likes of Hongkong, Taiwan, and Korea, in terms of the size of the baseload of potential domestic corporate listings. The primary leverage point for Singapore must therefore be the reinforcement of trust in the marketplace. By raising CG standards to the highest level, Singapore will be adding to its already strong reputation of having an efficient and transparent legal system; and its stable, effective political infrastructure. Attaining the highest CG standards is obviously a long-term survival imperative for Singapore as a financial centre.

Government has been key driver for CG in Singapore

Like many other initiatives, CG is being driven by the government. This is similar to how the government had to drive the telecommunications and banking industries open when no company was willing to seek liberalisation in its own sector. In the case of CG, listed corporates generally fail to see sufficient reason to put additional effort and resources into enforcing the highest CG principles.

Handling of eWorldofSports IPO underpinned seriousness of CG enforcement

The government's seriousness in enforcing CG principles is revealed in the dogged pursuit of UOB in not making the "appropriate disclosure" during the initial public offering of eWorldofSports.com in August 2000. In the end, the UOB group was fined S$400,000. All five staff members involved have also resigned from UOB since this fiasco. Consultants were brought in and their suggestions for process improvements to prevent similar mishaps in future were implemented.

Initiatives began as early as 1996 . . .

The initiatives on improving CG in Singapore started as early as 1996 when the Singapore Exchange issued a chapter on Corporate Governance in its Listing Manual (Chapter 9B). The requirements in the new chapter, however, centred narrowly on audit committees (formation, roles, duties) and the overall audit of listed companies. The broader definition of CG and wider ambit of CG only came later.

. . . and has continued right through 2000/2001

Key events in CG Development in Singapore

Date	Event
Nov 1996	Singapore Exchange issues Chapter 9B on CG in its Listing Manual with the aim of raising corporate governance standards among listed companies. Requirements centred around audit committees (formation, roles, duties) and the overall audit of listed companies.
Dec 1997	DPM Lee forms Corporate Finance Committee with the aim of improving the efficiency of the corporate fundraising process and standards of corporate disclosure.
May 1998	Singapore Exchange replaces Chapter 9B with a Best Practices Guide after consulting with listed corporates. Compliance is encouraged but not mandatory, though differences/short falls must be disclosed in annual reports.
Jul 1998	Singapore Institute of Directors set up as the national association of company directors. Aim is to represent directors' interests, and ultimately become the leading authority on corporate governance and directorship practices in Singapore.
Dec 1999	Minister of Finance, Monetary Authority of Singapore and the Attorney-General's Chambers set up three private sector-led committees: 1) Committee on Company Legislation and Regulatory Framework; 2) Committee on Disclosure and Accounting Standards; and 3) Committee on Corporate Governance.

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Key events in CG development in Singapore

Date	Event
Aug 2000	Institute of Certified Accountants of Singapore (ICPAS)'s announcement to accelerate the alignment of local and international accounting standards.
Nov 2000	Corporate Governance Committee releases consultation document recommending CG best practices. Proposals to be finalised in 1Q01.
Nov 2000	Parliament amends Companies Act with changes to rules on IPOs, annual reports, material disclosures and share buybacks. Companies are now legally obliged to make timely, accurate and detailed disclosure. This is a response to Corporate Finance Committee recommendations.
Dec 2000	Disclosure and Accounting Standards Committee releases a consultation document on accounting standards and regulations. Proposes quarterly reporting, trimmed reporting periods, more information on directors and key executives, risk management policies and CG practices, etc.
Jan 2001	Monetary Authority of Singapore issues a consultation document on rule changes, which will tighten rules preventing insider trading. Announces that they will be vested with the power to pursue civil prosecution of listed companies which fail to make timely disclosure of material information, as well as any market participants suspected of misconduct.
Ongoing	Committee on Company Legislation and Regulatory Framework Is reviewing Singapore's corporate law/regulatory framework vs best practices in major/reputable business jurisdictions.
Mid-2001	Expect new Securities and Futures Act (SFA) to make it a statutory obligation for listed companies to make continuous disclosure to their shareholders. Non-disclosure or late disclosure of material information will be a breach of law, and carry either civil or criminal penalties.

Source: Singapore government releases, Straits Times, Business Times

Three private sector-led committees were set up to spearhead further CG driven changes

In Dec 1999, the Minister of Finance, Monetary Authority of Singapore and the Attorney-General's Chambers jointly set up three private sector-led committees to assess additional CG initiatives which were required. The initial plan was to have the studies completed within a year. While there seems to have been a slight delay, most of the issues have been put up for discussion by two of the three committees which have released their consultation documents.

Corporate governance and Disclosure/ Accounting Standards committee have already released detailed consultation documents [See http://ww.mas.gov.sg]

In Nov 2000, the ***Corporate Governance Committee*** released a consultation document recommending CG best practices including the composition of Board members, remuneration matters, accountability/audit issues and communication with shareholders. The feedback from the public is currently being collated and assessed with plans for the final proposals to be made by end-1Q01. In Dec 2000, the ***Disclosure and Accounting Standards Committee*** released a consultation document on accounting standards and regulation. Proposals made include: quarterly reporting; reporting of interim results within 60 days (from 90 days currently, with ultimate target of 45 days); annual report release within 120 days (from five months currently, with the ultimate target of 90 days); filing via the internet (to increase/expedite information dissemination); profiles of directors and key executives; discussion on risk-management policies and existing CG practices.

Report from Committee on Company Legislation and Regulatory Framework is due soon

The Committee on Company Legislation and Regulatory Framework is currently reviewing Singapore's corporate law/regulatory framework. The aim is to assess the enhancements/changes required to meet and potentially exceed the current best practices in other major and reputable business jurisdictions.

Many suggestions address the CG shortfalls unearthed in recent PWC survey

In Mar 2000, PriceWaterHouseCoopers released their findings on where CG improvements can be made. Areas highlighted as requiring further improvements were:

- disclosure and transparency in the annual report and financial statements;
- increased frequency for company reporting (eg, on a quarterly basis instead of a semi-annual basis);
- disclosure of directors' dealings with related parties;
- separation of roles of chairman and chief executive officer/managing director;
- clearer separation of company ownership and management;
- clearer definition of directors' responsibilities; and
- more guidance on corporate governance and activities in the Best Practices Guide.

[Source: PriceWaterhouseCoopers]

Certainly, as this survey was completed prior to the release of consultation documents from the CG committees, the shortfalls identified would certainly have been targets for eradication/redressing.

Nov 2000 saw series of amendments to Companies Act

In Nov 2000, the Parliament amended the Companies Act as an initial response to the recommendations made by the Corporate Finance Committee (formed in Dec 1997). This lengthy delay resulted from the various parties having other pressing issues to attend to as Asia plummeted into the 1998 crisis. Changes have been made to provide information in initial public offers in a more digestible form, annual reports are to be released within five months instead of six etc. Companies are now legally obliged to make timely, accurate and detailed disclosure.

Mid 2001 should see release of comprehensive Securities and Futures Act

. . . and insider trading laws will be tightened even further

By mid-2001, the Monetary Authority of Singapore is targetting for a new Securities and Futures Act (SFA) to be in place that will, among other things, tighten disclosure requirements. It will become a statutory obligation for listed companies to make continuous disclosure to their shareholders. Non-disclosure or late disclosure of material information will be a breach of law, and carry either civil or criminal penalties. Other changes have been suggested in a consultation document published by the MAS. These include the widening of the interpretation of "insiders" in relation to insider trading. The MAS aims to do away with the requirement to prove connectedness and focus the burden of proof on the possession, and acting upon possession, of what is deemed to be "inside information". The MAS also has made clear its intention to pursue insider trading cases where necessary through civil suits rather than criminal cases. This will reduce the burden of proof required to get judgements against and penalties imposed on transgressors.

By next year, listed companies will be required to adopt many key CG principles

. . . or be required to explain why they are not compliant

By next year, we believe most of the suggested changes from the three CG committees should be implemented. The increased information in reporting results and the shift to quarterly reporting will improve transparency. Companies that drag their feet, and there will certainly be some, will have to compare their practices against Best Practice Guidelines and explain any shortfalls. Those that slip back may well find it difficult to generate the same level of institutional interest in their stocks.

Best and worst in recent CG events

DBS Group has moved ahead in enforcing CG principles

DBS Group has moved well ahead of its peers (in the Singapore banking sector) in terms of the transparency of reported accounts and overall shareholder communications. Many of the suggestions in the consultation documents filed by the CG committees, eg, providing more comprehensive discussion of results in published reports, disclosing risk management practices, etc, are already being followed. Diversity of the top management has been achieved with infusion of lateral foreign talent. DBS easily has the most seasoned and competent pool of managers, among its peers. The management is readily accessible to investors. It also has been the most pro-active in restructuring its operations and disposing non-core assets, well before it was suggested as a regulatory requirement.

SPH made an about-turn in policy of distributing cash

In Oct 1998, **SPH** surprised the market by announcing a reverse rights issue which effectively returned S$0.5bn in cash (excess capital) to shareholders. The deft handling of this immense event can be seen from the placid share price action [of SPH] except for the last few hours before the announcement. Certainly, we count this as a major improvement in CG for SPH given its sustained cashflow generation capability. Indeed, the general unwillingness of the board to return excess capital is one plausible reason why SPH made the otherwise difficult-to-understand S$650m investment into two commercial properties in 2H96. Going forward, the concept of returning excess capital to shareholders seems to be getting entrenched: the payout ratio for FY00 was a whopping 104%, up from 30% just three years ago.

NOL went through a bad patch but has turned around on CG

Over the last few years, **Neptune Orient Lines** corporate governance has seen a dramatic improvement. One needs only to go back to April 1997, when the SGX (then the Stock Exchange of Singapore) granted the company a waiver on a critical shareholder vote. The issue then was the planned acquisition of APL (American President Lines) for $1.188 billion, or a value some 36% greater than NOL's market capitalisation of about $867m then. This proved a disastrous mistake as the shipping industry went into one of its worst ever years. NOL went into this cataclysm with a balance sheet that was geared some 13.8x over as a result of the acquisition. The reasons for granting the waiver were not convincing. Certainly, the requirement to subsequently reduce this balance sheet gearing via sizeable asset sales highlights a serious judgment error. Major assets within APL were sold for US$300m and NOL additionally raised US$0.5bn in capital via an international share placement. The personalities involved in this fiasco have, over time, moved on, perhaps by accident, but certainly with no fanfare, i.e. the Singaporean way. A very capable Flemming Jacobs, ex-Maersk-Sealand, took over as CEO from Lua Cheng Eng. Lua in turn took over the chairmanship from Herman Hochstadt and Lim How Teck took on the CFO position. Since then, divestments of non-core assets, an improving track record of managing and exceeding earnings expectations have raised NOL's score on CG. Going forward, NOL can raise its CG ranking even higher by making clearer disclosures as and when it makes its logistics acquisitions, providing more

. . . although more improvements can be made on transparency

frequent updates on financial and operational performance, amongst other aspects of improving on transparency.

Natsteel Electronics share price surge prior to takeover remains an embarrassment

Certainly, Singapore has had various negative examples of corporate governance disasters. In our earlier report on corporate governance (The tide's gone out: Who's swimming naked?), we discussed the dubious events involving **IPC**. The more recent event, which begs further questioning, is the case of the since de-listed **Natsteel Electronics**. Natsteel Electronics' share price witnessed a 58% rally from $2.89 to $4.56, just prior to the stock suspension on 30 Oct 2000. A takeover announcement followed on terms which were eerily similar to those circulating through the grapevine just weeks before the announcement. This attracted the scrutiny of the SGX and both Natsteel and Natsteel Electronics had to answer various queries on the matter. With both parties politely replying that they had done all they could to prevent information leakages on the deal, the SGX had little else to proceed on. Under the existing regulatory framework, the SGX could not pursue parties who are deemed to be “not connected” even if they had possession of insider information and traded on it.

A similar case in the US involving a Singaporeans resulted in financial redress

Singapore will therefore put new rules to insider trading

There was a similar insider-trading case in 1997, which involved (Singapore-listed) **Lum Chang Holdings** chairman Raymond Lum and two other businessmen. All three were charged by the US Securities and Exchange Commission for allegedly making illegal profits totalling US$2.3m by buying shares and call options in the California-based shipping company APL. These transactions were conducted two days before an announcement that APL would merge with Neptune Orient Lines here. While Lum did not admit or deny the charges, he later paid US$2.25m to settle the matter. The contrast in the outcomes between this situation and the Natsteel Electronics case is all about the adequacy of the regulations. The tightening of insider trading rules that will very likely be passed into law (see above) will remove this shortcoming in Singapore.

Econ International’s US$1bn arithmetic error caused share-price volatility

On 21 Aug 2000, Singapore-listed **Econ International** announced to journalists that they had won a US$1.1bn (S$1.9bn) contract to build an LRT line in South Korea and that first-year revenue from it would be US$1.3bn when it begins operations in 2006. When the US$1.3bn figure hit headlines the next day, heavy share trading activity resulted in the Econ shares spiking up by as much as 15 cents (over 40%) before losing momentum and ending the day practically flat at S$0.35. By the end of the day, the company explained that they had made an arithmetical error that resulted in a first-year revenue of US$130m being communicated as US$1.3bn! In a more litigious environment, Econ would have been sued for the trading losses suffered by the investors that Tuesday morning. In Singapore where the laws on this matter are unclear and untested, no lawsuit against the company has been reported. Perhaps more interesting is that the shares in Econ were already up by about 10% in the morning before the announcement of the "US$1.1bn" deal. As of time of writing, Econ International shares have fallen back to S$0.18 with near-zero interest.

Companies with CG upside potential

Company	CG Score (%)	Events that could change CG score
City Dev	63.0	❑ Management is looking to increase transparency with investors eg making their hotel operations more transparent for Asian investors.
NOL	84.0	❑ Once logistics acquisitions are completed, management will be prepared to release more information to explain valuation assessments. More frequent data releases are also expected.
OCBC	64.5	❑ Disclosure of non-core asset divestment plans should unveil true value of group. While CG score should improve, expectations of value extraction are already high.
SPH	80.5	❑ Clarity on plans to divest non-core investments, eg property and possibly telecommunications infrastructure assets will improve the focus of operations.

Source: CLSA Emerging Markets

Companies with CG downside risk

Company	CG Score (%)	Events that could change CG score
Keppel Land	56.0	❑ Increasingly stretched cashflows at the company level with recent series of investments likely to result in capital raising exercise (yet again) instead of asset disposals. Continuing uncertainty in the restructuring plans at the parent level add to potential CG risks for Keppel Land.
SIA	85.7	❑ Privately held Virgin Atlantic is allowed to release financials very late, eg FY99 results were released some nine months after the end of the year. SIA's 49%-stake here represents uncertainty in their exposure, which could rise over time. SIA's increasing stakes in other airlines (25% in ANZ and potentially a stake in Air India) represents future transparency risks.
Keppel Corp	62.8	❑ Group was struggling to find a core business to anchor the holding company earnings/ cashflow. Unfortunately, the plan appears to have been ditched with the group now justifying its capability of "creating and building new businesses" ie, being a conglomerate. Future cash- raising exercises remain a risk given that management perceives its WACC to be below 6%.

Source: CLSA Emerging Markets

CG and financial performance

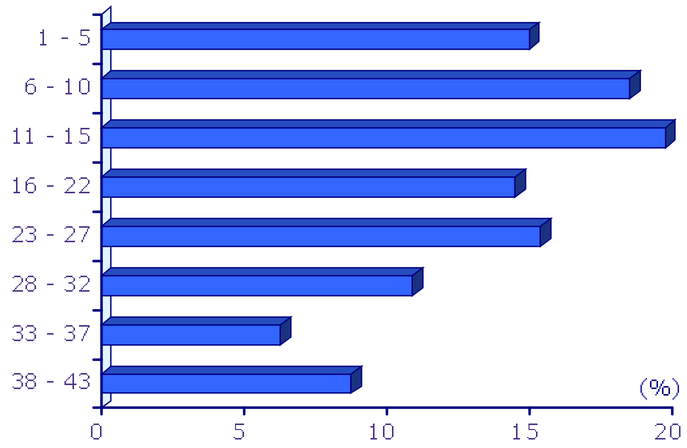
CG to ROCE, ROE and EVA™ for Singapore sample

	Quartile CG ranking				Average of
	Top	Second	Third	Bottom	Country basket
ROCE (%)	10.1	27.2	14.0	8.2	15.0
ROE (%)	17.3	16.2	12.7	7.6	13.6
EVA™/IC (%)	4.7	10.0	1.2	(2.7)	3.3

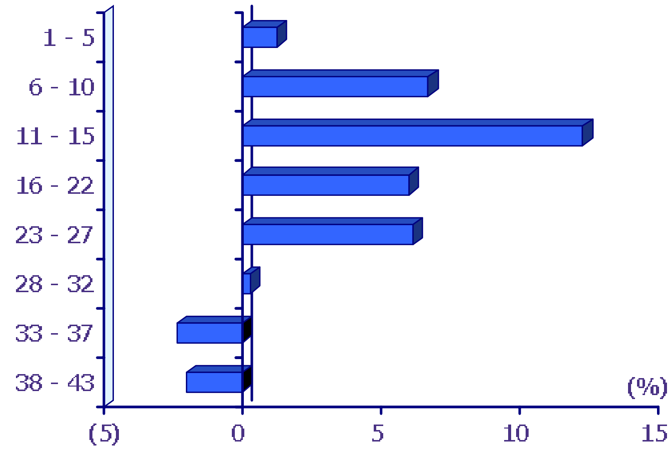
Source: CLSA Emerging Markets

❑ In our basket of the main coverage in Singapore, the top quartile companies for CG certainly outperform the bottom quartile basket on average for ROCE, ROE and EVA™. The performance differential between the top and second quartiles are certainly less clear although the delineation between the top half vs the bottom half points to stronger CG companies having higher financial return ratios. While self selection (eg making investments where ROA is higher than cost of capital is one of our CG questions) might partly contribute to this, it is probably fair to infer that better managed companies will tend to have better corporate governance. Transparency also tends to be easier if you do not have problems/ skeletons to hide.

CG rankings and ROE



CG rankings and EVA™



Source: CLSA Emerging Markets

CG and valuations

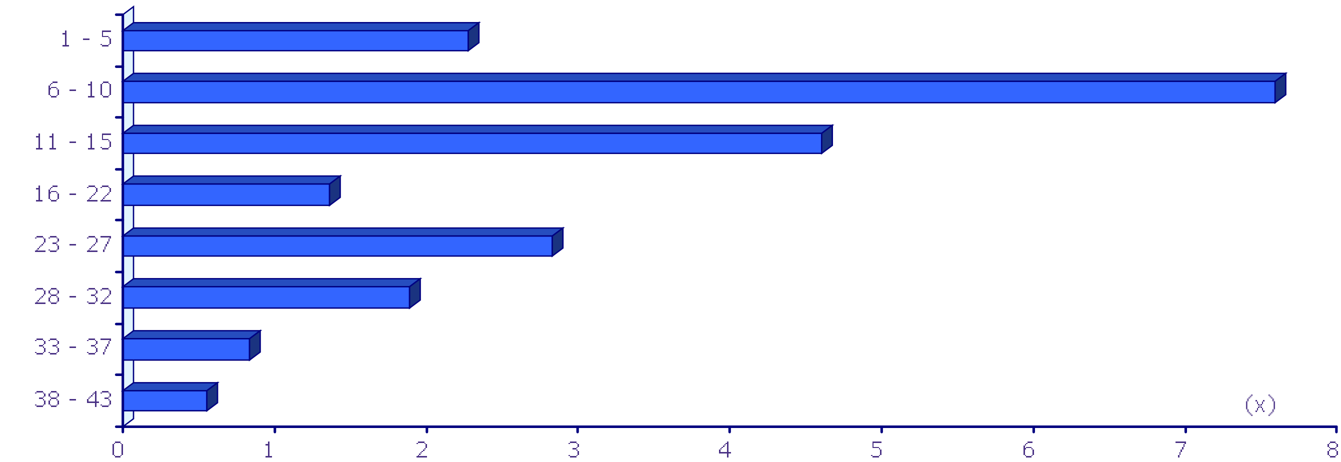
CG to PE and PB for Singapore sample

	Quartile CG ranking				Average of
	Top	Second	Third	Bottom	Country basket
FY01 PE (x)	14.2	18.3	16.7	14.7	15.9
FY00 PB (x)	4.8	2.9	2.2	0.6	2.7

Source: CLSA Emerging Markets

❑ Looking at the Price-to-Book, the top CG companies are definitely on higher valuations across the ranked CG quartiles. However, the fact that the top CG quartile has a lower PE multiple may seem odd. But this low PE multiple is due to compressed multiple of 3.7x PE that the market has assigned to NOL and 10.3x PE for SIA which both have top quartile CG ranking.

CG rankings and PB



Source: CLSA Emerging Markets

CG and share-price performance

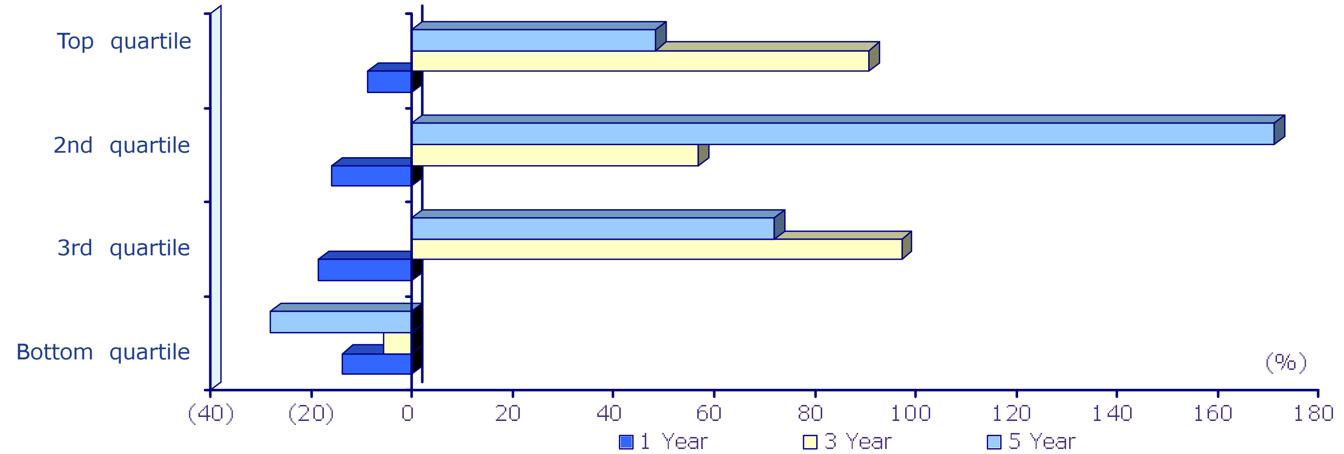
Share-price returns (USD) to end-2000

	Quartile CG ranking				Average of
	Top	**Second**	**Third**	**Bottom**	**Country basket**
1-year share-price performance	(8.9)	(16.0)	(18.5)	(13.8)	(14.4)
3-year share-price performance	90.7	56.9	97.2	(5.6)	58.7
5-year share-price performance	48.3	171.2	71.9	(28.2)	62.7

Source: CLSA Emerging Markets

- Over one and three years, the top quartile companies on our CG rankings have provided the best relative performance, beating the average by a significant 5.5ppt over one year and 32 ppts over three years. The performance comparisons between the top three quartiles is certainly not a close correlation with CG rankings, but the companies in the bottom quartile have been quite massive underperformers, falling on average by almost 6% over the three years when the market sample rose 59%.
- The performance ranking, however, would definitely suggest that investors could have easily outperformed by steering well clear of the bottom quartile CG companies.

CG rankings and one-, three-, five-year performance to end-2000



Source: CLSA Emerging Markets

Singapore companies sorted by CG

Company name	Discipline 15%	Transp. 15%	Indep. 15%	A/cability 15%	Resp. 15%	Fairness 15%	Social 10%	Wgtd avg 100%
Singapore Airlines	88.9	70.0	100.0	62.5	100.0	94.4	83.3	85.7
Neptune Orient Lines	100.0	70.0	100.0	62.5	83.3	88.9	83.3	84.0
Singapore Press Holdings	66.7	80.0	85.7	87.5	66.7	94.4	83.3	80.5
SembCorp Industries	55.6	90.0	92.9	62.5	66.7	94.4	66.7	76.0
DBS Group	44.4	90.0	92.9	62.5	66.7	94.4	66.7	74.3
ST Engg	100.0	90.0	64.3	25.0	83.3	88.9	50.0	72.7
SembCorp Marine	66.7	80.0	92.9	50.0	66.7	83.3	66.7	72.6
Natsteel Ltd	66.7	80.0	92.9	50.0	66.7	88.9	50.0	71.8
SembCorp Logistics	33.3	90.0	92.9	62.5	66.7	94.4	50.0	71.0
OUB	66.7	80.0	78.6	37.5	66.7	94.4	66.7	70.2
SMRT	66.7	70.0	85.7	37.5	83.3	88.9	50.0	69.8
Natsteel Broadway	88.9	60.0	85.7	50.0	66.7	83.3	33.3	68.5
Cerebos	77.8	70.0	100.0	25.0	66.7	83.3	50.0	68.4
Datacraft	44.4	70.0	85.7	62.5	66.7	88.9	50.0	67.7
STATS	33.3	80.0	85.7	62.5	66.7	83.3	50.0	66.7
Creative	44.4	70.0	85.7	50.0	66.7	83.3	66.7	66.7
Capitaland	33.3	80.0	92.9	87.5	83.3	44.4	33.3	66.6
SBS	77.8	50.0	71.4	37.5	83.3	88.9	50.0	66.3
Keppel Capital	33.3	90.0	78.6	50.0	50.0	88.9	66.7	65.3
Delgro	77.8	50.0	71.4	37.5	66.7	94.4	50.0	64.7
Singtel	66.7	60.0	92.9	50.0	83.3	44.4	50.0	64.6
Asia Pacific Breweries	77.8	60.0	71.4	37.5	66.7	83.3	50.0	64.5
OCBC	33.3	90.0	85.7	37.5	50.0	88.9	66.7	64.5
Chartered	33.3	80.0	92.9	62.5	50.0	77.8	50.0	64.5
Venture	55.6	70.0	92.9	25.0	66.7	83.3	50.0	64.0
GES	44.4	70.0	85.7	37.5	66.7	88.9	50.0	64.0
UOB	33.3	80.0	78.6	37.5	66.7	83.3	66.7	63.6
Keppel FELS	44.4	70.0	85.7	37.5	66.7	83.3	50.0	63.1
City Dev	66.7	50.0	78.6	75.0	83.3	33.3	50.0	63.0
Haw Par Corporation	44.4	60.0	71.4	37.5	83.3	88.9	50.0	62.8
Keppel Corp	22.2	90.0	85.7	37.5	66.7	83.3	50.0	62.8
Omni Industries	33.3	70.0	85.7	25.0	66.7	94.4	50.0	61.3
Cycle and Carriage	66.7	70.0	85.7	25.0	50.0	88.9	33.3	61.3
Robinson	55.6	60.0	71.4	12.5	83.3	77.8	50.0	59.1
Keppel Land	44.4	70.0	71.4	37.5	83.3	33.3	50.0	56.0
Parkway	88.9	30.0	42.9	50.0	33.3	83.3	66.7	55.9
Wing Tai	44.4	60.0	71.4	37.5	83.3	33.3	50.0	54.5
Allgreen	55.6	30.0	71.4	37.5	83.3	33.3	50.0	51.7
Marco Polo	44.4	30.0	71.4	37.5	83.3	38.9	50.0	50.8
MCL Land	44.4	30.0	71.4	37.5	83.3	33.3	50.0	50.0
Fraser and Neave	44.4	60.0	21.4	37.5	50.0	88.9	33.3	48.7
FCC	44.4	30.0	71.4	37.5	66.7	27.8	50.0	46.7
Singland	33.3	30.0	71.4	37.5	66.7	33.3	50.0	45.8

Source: CLSA Emerging Markets

Patterns in the scores – Singapore

	Question	"Yes" score in in country sample (%)	Comments
1	Explicit public statement placing a priority on CG	55.8%	About half of the companies have issued a mission statement which suggests that corporate governance is a commitment. Where companies score poorly, it is usually because there is no explicit mission statement provided.
2	Management incentivised towards a higher share price	32.6%	Senior management in most companies still find the bulk of their remuneration coming in the form of salaries and bonuses. With the government allowing more generous stock option schemes (larger % of options, longer tenure for exercise, tax breaks on gains), the concept of stock options will likely continue to grow.
3	Sticking to clearly defined core businesses	72.1%	Most companies tend to stick to their defined core business. The issue arises when, once in a while, companies decide that they have 3, 4, 5, or X number of core businesses. This is very symptomatic of conglomerates in Singapore.
4	Having an appropriate estimate of cost of equity	30.2%	Few companies actually have a clear understanding of their cost of equity. Part of the reason is that cost of capital has usually been unimportant given the excess liquidity in the Singapore system. Some are obviously still unwilling to disclose their cost of equity estimates for many reasons.
5	Having an appropriate estimate of cost of capital	39.5%	The concerns of disclosure on Cost of Equity filter into this question as well.
6	Conservatism in issuance of equity or dilutive instruments	76.7%	Many of the companies are cash rich and haven't really had to issue new equity. Hoarding capital is probably the key issue investors have on Singapore corporates.
7	Ensuring debt is manageable, used only for projects with adequate returns	55.8%	Most of the issues with the issuance of debt is the duration mismatch. Few companies are sufficiently sophisticated to really consider this. Certainly, when debt is issued, the cost of debt at the point in time is almost always less than the estimated return of the project in time.
8	Returning excess cash to shareholders	60.5%	If this question were asked three years ago, the score would have been lower. Over the last three years, Singapore corporates have had to dig into their reserves due to the crisis. Also, many "enlightened" cash-generative corporates have decided to return cash to shareholders via higher dividends and outright cash disbursements, eg SPH, the banks, Natsteel amongst many others.
9	Discussion in Annual Report on corporate governance	76.7%	This is becoming a standard amongst Singapore corporates. Going forward, expect the figure to go towards 100% as the white paper discussion on Corporate Governance becomes adopted.
10	Disclosure of financial targets, eg 3-5 year ROA/ROE	27.9%	This is one figure where companies find great difficulty divulging. Most corporates still feel the historical constraints of the Singapore Stock Exchange which prevent them from making overly forward-looking statements.
11	Timely release of Annual Report	86.0%	By law, annual reports need to be published within 5 months. Better internal management systems is allowing earlier compilations.

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Patterns in the scores – Singapore (continued)

	Question	"Yes" score in in country sample (%)	Comments
12	Timely release of semi-annual financial announcements	83.7%	By law semi-annuals must be announced within 3 months of the year end. Most manage to beat this deadline by at least a month.
13	Timely release of quarterly results	14.0%	Quarterly reports is an item of great debate. This analyst is not completely convinced of the value in providing quarterly reports since it seems to exacerbate the already short-terministic nature of markets. Until the law mandates this, expect few companies (unless required by ADR listings) to produce quarterly reports.
14	Prompt disclosure of results with no leakage ahead of announcement	83.7%	In many cases, the results are out within the day.
15	Clear and informative results disclosure	67.4%	Disclosures have improved immeasurably over the last five years, especially in the banking sector due to government requirements.
16	Accounts presented according to IGAAP	97.7%	Singapore corporates adhere to the Singapore Accounting Standards which are fairly closely aligned with the International Accounting Standards. Where companies have listed ADRs, US GAAP statements are separately provided.
17	Prompt disclosure of market sensitive information	74.4%	A "continuous disclosure policy" seems to be on the way in Singapore. Expect this ratio to improve going forward.
18	Accessibility of investors to senior management	67.4%	This figure should be higher. Unfortunately, many corporates are either too time-constrained or find dealing with the analyst community an unnecessary chore.
19	Web-site where announcements updated promptly	67.4%	Some of the smaller companies have found it unnecessary to host websites to provide corporate information.
20	Board and senior management treatment of shareholders	95.3%	Parkway and F&N are the two companies who score negative here.
21	Chairman who is independent from management	32.6%	In most cases, we are not convinced that the Chairman is independent. In any case, quite a few are actually executive chairmen.
22	Executive decisions by management committee comprised differently from Board	46.5%	In many cases, the rather small size of top management makes this impossible to adhere to. The limited pool of experienced and respected directors also makes this a challenge for many listed corporates.
23	Audit committee chaired by independent director	100.0%	All companies in our list have an audit committee chaired by an independent director.
24	Remuneration committee chaired by independent director	58.1%	The remuneration committee is in itself a new phenomenon.
25	Nominating committee chaired by independent director	27.9%	Few companies have a nominating committee. For banks, it is now a requirement from the MAS. This setting up of this committee is being proposed in the new Corporate Governance guidelines.
26	External auditors unrelated to the company	100.0%	In all cases that we know of, the auditors are independent of the company.
27	No representatives of banks or other large creditors on the Board	95.3%	Having bankers represented on their boards is an exception. Parkway and ST Eng are the only two exceptions in our list.

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Patterns in the scores – Singapore (continued)

	Question	"Yes" score in in country sample (%)	Comments
28	Board plays a supervisory rather than executive role	53.5%	In many cases, the rather small size of top management makes this impossible to adhere to.
29	Non-executive directors demonstrably independent	97.7%	Yes.
30	Independent, non-executive directors at least half of the Board	72.1%	This is increasingly an important issue which is being put into the Corporate Governance best practices guidelines.
31	Foreign nationals presence on the Board	27.9%	Few have foreign nationals on their board.
32	Full Board meetings at least every quarter	90.7%	Most companies have board meetings every quarter.
33	Board members able to exercise effective scrutiny	7.0%	Getting independent verification from independent directors was an obstacle to getting these answers. Only SPH provided this access quite openly while City Dev and Capitaland solicited the answers on our behalf.
34	Audit committee that nominates and reviews work of external auditors	7.0%	As above
35	Audit committee that supervises internal audit and accounting procedures	7.0%	As above
36	Acting effectively against individuals who have transgressed	97.7%	We have found limited evidence that these decisions have been made.
37	Record on taking measures in cases of mismanagement	16.3%	The issue of "saving face" seems to prevent the public from knowing when these punishments are meted out, even if it actually did happen.
38	Measures to protect minority interests	83.7%	By law, EGMs on most major transactions are required.
39	Mechanisms to allow punishment of executive/management committee	37.2%	See answer to question 37.
40	Share trading by board members fair and fully transparent	100.0%	By law, reporting must be done within 48 hours.
41	Board small enough to be efficient and effective	86.0%	The most interesting anomaly is Keppel Capital which has a 15-strong board despite the bank being smaller than the big Four Banks who range from 8-13. The necessity to protect diverse interests is probably the driver to the size of the board.
42	Majority shareholders treatment of minority shareholders	100.0%	We have not been able to cite any particular event which would allow us to rank companies negatively on this score.
43	All equity holders having right to call General Meetings	100.0%	In general, the shares owned by minorities are ordinary shares where all shareholders can call for General Meetings.
44	Voting methods easily accessible (eg through proxy voting)	100.0%	This is improving with internet voting a new theme.
45	Quality of information provided for General Meetings	100.0%	In most cases, the necessary information is provided at General Meetings.

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Patterns in the scores – Singapore (continued)

	Question	"Yes" score in in country sample (%)	Comments
46	Guiding market expectations on fundamentals	65.1%	An increasing number of companies are realising the importance of guiding investor expectations. However, to the extent that some major shareholders are independently wealthy, the importance of guiding equity market expectations is usually done directly via their own stock purchases, e.g. UOB buying into UOL, Wee family buying into Haw Par, SPH buybacks, Hong Leong buying into City Dev.
47	Issuance of ADRs or placement of shares fair to all shareholders	97.7%	Few Singaporean companies have issued depositary receipts.
48	Controlling shareholder group owning less than 40% of company	58.1%	Where there is a majority ownership, it is usually the government or government linked corporates.
49	Portfolio investors owning at least 20% of voting shares	18.6%	Few shareholders have shown clear displays of activism in Singapore.
50	Priority given to investor relations	76.7%	In most cases, Investor Relations is given quite high priority. Increasingly, the major shareholder is finding feedback quite pertinent to what the corporate should do to improve listed values.
51	Total Board remuneration rising no faster than net profits	53.5%	The growing size of the board of directors and increasing perceived importance of the board has certainly pushed up the directors' remuneration over time. However, it seems fair to say that many companies actually don't even benchmark the remuneration of directors to the earnings of the company.
52	Explicit policy emphasising strict ethical behaviour	11.6%	Explicitness is the issue here. Clearly, non-ethical behaviour is usually grounds for dismissal anyway.
53	Not employing the under-aged	97.7%	Almost all companies have a clear culture which would prevent employment of the underaged. In the case of the single exception, we are simply unsure of its production base in China.
54	Explicit equal employment policy	41.9%	The importance of racial and religious tolerance is enshrined in the constitution of Singapore. Making racial, religious and sexual balance an issue within the corporate policy has not been considered particularly important nor necessary.
55	Adherence to specified industry guidelines on sourcing of materials	76.7%	Singapore corporates have to abide by global standards for their use of raw materials. Production standards are usually gauged on a global level as well, hence adhering to standards is usually a given.
56	Explicit policy on environmental responsibility	7.0%	Environment consciousness is definitely not something Singapore corporates consider important. Creative Tech, SPH and SIA would be exceptions to the rule as they have been seen to participate in items of this nature.
57	Abstaining from countries where leaders lack legitimacy (Myanmar)	90.7%	A handful of companies would have operations in Myanmar due to their Pan-Asian/Global footprint. CCL, F&N, SIA and Capitaland would rate amongst these.

Source: CLSA Emerging Markets

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Taiwan – Political broomstick

High CG BUYs/low CG SELLs

Company	CG Score (%)	Re-rating drivers
High CG BUYS		
TSMC	77.0	Leader in fast growing foundry industry. TSMC increased market dominance in 2000 (48% market share, up from 37% in 1999). BUY.
Powerchip	72.6	Near trough valuation. With Mitsubishi's support, Powerchip is one of the lowest cost DRAM producers globally. BUY.
Elan	63.1	One of the most competitive consumer IC design companies globally. Trading at a big discount to comparable stocks. Benefiting from the trend of falling foundry prices. BUY.
VIA	61.7	BUY maintained, due to the prospect of CPU design wins.
Low CG SELLs		
Chang Hwa Bank	34.1	Continued asset quality deterioration and weak loan growth. SELL.
First Bank	35.6	Rising NPL and no earnings growth. SELL.
ACM	43.6	R&D team has left. Global handset shipment growth will slow down substantially this year. Valuations still high. UNDERPERFORM.
Cathay Life	48.8	Deflation and central bank's rigid capital controls increase Cathay Life's interest rate risk. SELL.

Source: CLSA Emerging Markets

Latest CG developments

Country ratings for macro determinants of CG

	Rating (1-10)
Rules and regulations	7
Enforcement and regulation	4
Political/regulatory environment (ie, interference)	4
Adoption of IGAAP	7
Institutional mechanisms and CG culture	6

Source: CLSA Emerging Markets

Stricter enforcement of law under the DPP

Year 2000 was an important year in Taiwan's CG development. Last year's presidential election unseated KMT's 55-year reign and gave Chen Shui-bian and his DPP party the mandate to run the country. Though domestic politics has been quite choppy since Chen took over the presidency, he has been applauded for stricter enforcement of law and for breaking up the age old ties between the old ruling KMT party and companies in Taiwan. In particular, various investigations are underway into the practice of large state banks, in many cases involving management as senior as president or chairman. Though most of these cases are still pending in the courts and it is still unclear which way the judges will rule, the general public and investors have strongly supported the swift and aggressive actions by local prosecutors in making inroads against age-old corruption.

Banks still the worst CG offenders

Not surprisingly, the weakest and least competitive segment of the economy – the banking system – is also where the most pronounced abuses of CG lie. Most of the large banks in Taiwan are still state-owned and therefore extremely bureaucratic. Because most senior managers are political appointees, loans are often made as political favours to politicians and to corporations that have a close relationship with the previous ruling party, the KMT. Most of these loans end up being used for stock and property-market speculation, and in many cases result in NPLs. The worst abuses are seen in the Credit Unions and Farmers and Fishermen Associations, where we estimate NPLs are roughly 30%.

Government's efforts generally reactive

The new government's efforts so far have been reactive rather than proactive For example institutions such as Credit Unions and Farmers and Fishermen Associations, which impose significant risk to the banking system should, in our view be abolished. Nevertheless, the political reality is that no such bill is likely to be passed by the Parliament, which is still controlled by the KMT.

Best and worst in recent CG events

Chinatrust Board approved the overpriced, dilutive acquisition of Chinatrust Bank USA

One of the worst CG transgressions last year was Chinatrust Bank's acquisition of Chinatrust Bank USA, from Jeffrey Koo Sr (chairman of Chinatrust) and Kenneth Lo (former president of Chinatrust). Prior to the acquisition, they held 70% and 30% respectively of the US bank respectively. Not only did the acquisition present a conflict of interests, but the price paid was outrageously high. The acquisition was done through an equity swap, and Chinatrust paid, based on our estimate, 4.7x book value for the US bank. For a bank that generated a ROE of 15.5%, the price was generally viewed as excessive.

UMC's related party transaction

In UMC's ADR prospectus, the company disclosed that it engages United Microelectronics (Europe) BV and other companies to distribute its products in Europe and Asia. UMC also disclosed that it was in the process of buying these distribution companies and that they were controlled by John Hsuan, Chairman of UMC and Robert Tsao, a director of UMC. Sales through these distribution companies totalled US$147m and US$198m for 1999 and 1H00. If UMC continues to distribute through these companies, we believe this raises questions of a conflict of interests and independence.

Politics and banking

Jerome Chen, the chairman of First Commercial Bank (a 36% state-owned bank) has been under political pressure to resign recently. The chairman allegedly sent letters to the bank's customers (borrowers) asking them to support the bank's board supervisor Charles Chiang in the DPP's primary elections and year-end legislative election.

Banks appear to be more independent

The best light on CG practices is that banks appear to have become more careful in their lending to politicians as well as to property and stock-market speculators. Part of the reason is that NPLs have risen significantly in the recent years and cleaning up asset quality has become a top priority for banks. Another factor is the change of administration last year with the regulators now more aggressively looking to expose foul play.

Powerchip

Powerchip saw significant improvement in CG and scored second highest in Taiwan for CG. TSMC's purchase of a minority stake in Powerchip last year has made the company more transparent and its board more independent and accountable.

Companies with CG upside potential

Company	CG Score (%)	Events that could change CG score
Delta	30.6	❑ The company is making fundamental changes to become more transparent. The new IR Mr Yancy Hai, who used to work at GE Capital, recognises the importance of providing investors and analysts with information on the company's operation. ❑ Much better disclosure on the company's China operation.
Acer	36.3	❑ Acer is undergoing restructuring to focus more on bottom line and ROE. ❑ Acer is shutting down unprofitable divisions and selling subsidiaries to focus more on core business.
CDIB	31.1	❑ The KMT Party has been selling down its stake in CDIB, which should mean greater independence for CDIB. ❑ The company is making an effort to improve transparency of its investments.
UMC	49.2	❑ UMC is becoming more transparent and more investor friendly. ❑ Consolidation of three JVs and Holtek last year improved the company's transparency.

Source: CLSA Emerging Markets

Companies with CG downside risk

Company	CG Score (%)	Events that could change CG score
TCC	52.5	❑ With growth slowing down and global telecom fundamentals deteriorating, we have noticed that TCC has become less willing to disclose its operations & financials. ❑ The size of the company's investment portfolio is increasing.
Sunplus	53.5	❑ Sunplus is raising cash even though it is a fabless IC design company with low capex and no cash need. ❑ ROE will go down as a result of unnecessary fund raising.

Source: CLSA Emerging Markets

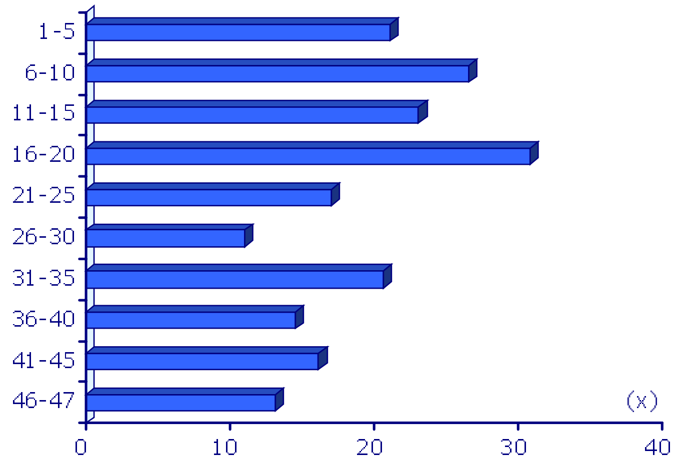
CG and financial performance

CG to ROCE, ROE and EVA™ for Taiwan sample

	Quartile CG ranking				Average of
	Top	Second	Third	Bottom	Country basket
ROCE (%)	27.9	27.0	13.1	12.8	20.8
ROE (%)	24.0	23.1	15.4	14.3	19.5
EVA™/IC (%)	9.4	3.5	(2.3)	(4.9)	1.9

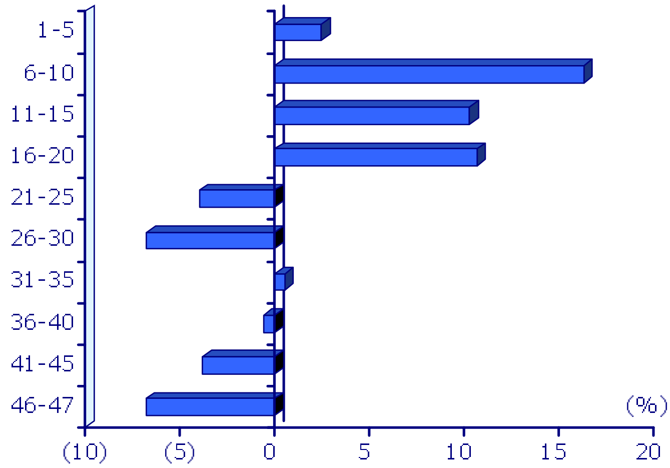
Source: CLSA Emerging Markets

CG rankings and ROE



Source: CLSA Emerging Markets

CG rankings and EVA™



Source: CLSA Emerging Markets

- Within our Taiwan universe, companies that scored high on CG also tend to have better financial-performance ratios.
- On FY00 ROCE, the average for our Taiwan sample (47 companies) is 20.8%. The top quartile, however, had an average ROCE of 27.9%, while the bottom quartile had a ROCE of 12.8%.
- Similarly for ROE, the top quartile in our sample had an average ROE of 24%, the average of the sample is 19.5% and the bottom quartile showed an average ROE of 14.3%.
- For EVA™/invested capital, the average of the sample is 1.9%. The top quartile had an average of 9.4% while the bottom quartile had an EVA™/IC average of -4.9%, which means these companies do not cover their cost of capital.
- TSMC (2330.TW), Sunplus (2401.TW – UNDERPERFORM), PCSC ((2912.TW – BUY), Macronix (2337.TW – BUY) and Elan (5433.TWO – BUY) are companies that scored high on CG and also have impressive financial returns. Financial institutions, such as ICBC (2806.TW), First Commercial Bank (2802.TW – SELL) and Chung Hwa Bank (2801.TW – SELL) have low CG scores and generate low financial returns.

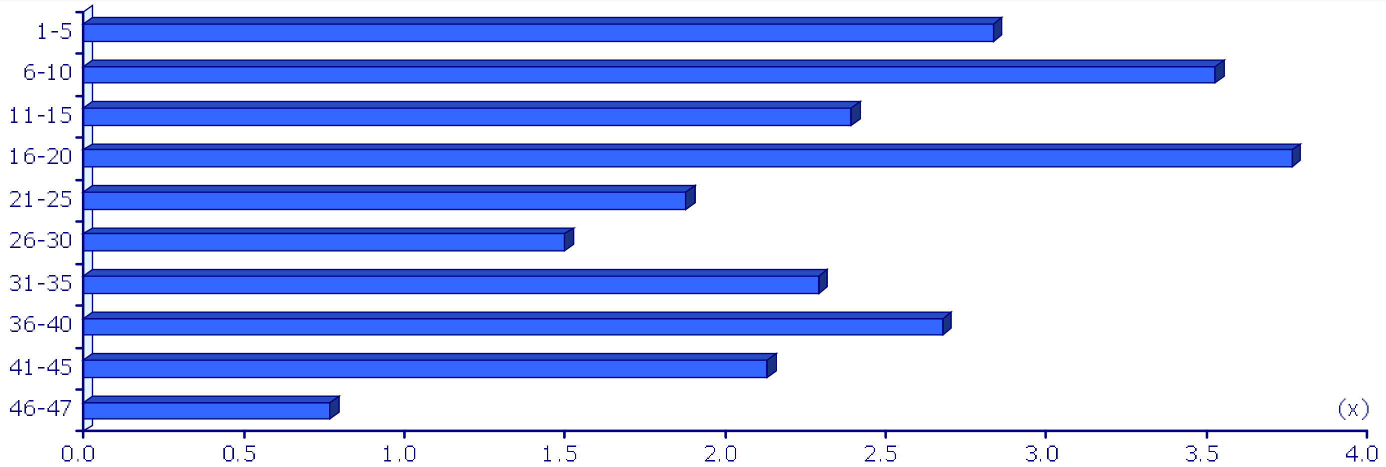
CG and valuations

CG to PE and PB for Taiwan sample

	Quartile CG ranking				Average of
	Top	Second	Third	Bottom	Country basket
FY01 PE (x)	15.6	13.8	17.8	19.4	16.4
FY00 PB (x)	3.2	2.4	2.1	2.0	2.5

Source: CLSA Emerging Markets

CG rankings and PB



Source: CLSA Emerging Markets

- No clear trend emerged between CG scores and valuations.
- Companies with higher CG scores tend to have higher PB measures. The average of our Taiwan universe is 2.5x (for the recently completed financial year), while for the top quartile the average PB was 3.2x and for the lowest quartile the average PB was 2x.
- For PEs, the average of our sample was 16.7x (current year earnings). The top quartile's average PE was 15.6x, while companies in the lowest CG quartile for Taiwan had an average PE of 19.4x.
- The reason why companies in the lowest quartile had high PE and low PB is because most of these companies are banks and PB is a more meaningful measure. Many of these companies' PEs are high because earnings are low and investors are pricing them based on net asset value.

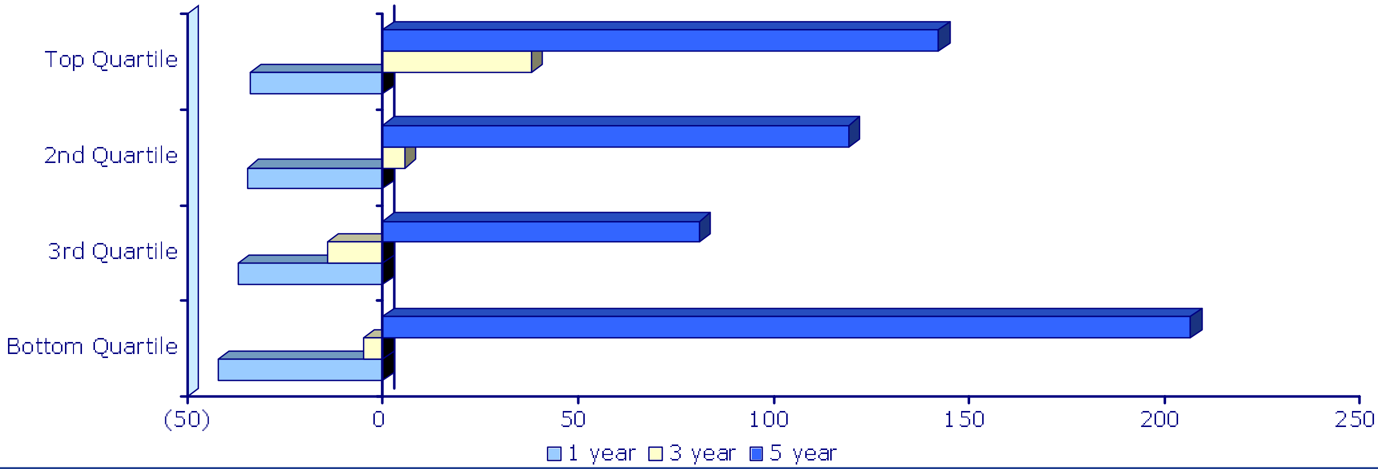
CG and share-price performance

Share-price returns to end-2000

	Quartile CG ranking				Average of
	Top	Second	Third	Bottom	Country basket
1-year share-price performance	(33.8)	(34.6)	(37.1)	(42.2)	(36.6)
3-year share-price performance	38.1	5.6	(14.1)	(4.7)	4.3
5-year share-price performance	142.2	119.2	80.9	206.7	129.7

Source: CLSA Emerging Markets

CG rankings and one-, three- and five-year performance to end-2000



Source: CLSA Emerging Markets

- Companies with good CG have clearly outperformed over the last one, three and five years, particularly for companies in the top CG quartile. Clearly it pays to invest in companies with good CG.
- In our sample, the simple average return for 2000 was -37%. For the top quartile, the average performance of stocks was -34%; while the bottom quartile performance last year was minus 42%.
- For the past three years, the simple average total return for the sample was 4.3%. The top quartile outperformed with a return of 38.1%, while the bottom quartile of stocks in the sample yielded -4.9% return. Companies in the top CG quartile that have had very strong share-price performances over the past three years have been TSMC (66%), Sunplus (150%) and PCSC (51%).
- For the past five years, the average of the Taiwan basket provided a return of 130%. The top quartile has generated a superb return of 142% (simple average). The bottom quartile also yielded a strong return of 207%, but that is due to the exceptionally strong performance of Hon Hai in the past five years (up 1,015%). If we take Hon Hai out, the bottom quartile's return in the past five years would fall significantly to 38%.

Taiwan companies sorted by CG

Company name	Discipline 15%	Transp. 15%	Indep. 15%	A/cability 15%	Resp. 15%	Fairness 15%	Social 10%	Wgtd avg 100%
TSMC	100.0	100.0	42.9	87.5	66.7	50.0	100.0	77.1
Powerchip	66.7	70.0	92.9	87.5	66.7	33.3	100.0	72.6
Bank Sinopac	77.8	80.0	92.9	50.0	33.3	88.9	66.7	70.1
Sunplus	55.6	70.0	78.6	50.0	33.3	94.4	100.0	67.3
D-Link	44.4	50.0	78.6	87.5	66.7	72.2	66.7	66.6
PCSC	55.6	70.0	100.0	75.0	50.0	44.4	66.7	65.9
Macronix	66.7	90.0	85.7	50.0	33.3	33.3	100.0	63.9
ADT	33.3	70.0	78.6	50.0	33.3	88.9	100.0	63.1
Elan	44.4	70.0	78.6	50.0	16.7	94.4	100.0	63.1
Advantech	55.6	50.0	85.7	62.5	66.7	77.8	33.3	63.1
VIA	66.7	30.0	85.7	12.5	50.0	100.0	100.0	61.7
Winbond	55.6	90.0	85.7	75.0	16.7	38.9	66.7	60.9
Yuanta Sec	44.4	70.0	78.6	25.0	50.0	77.8	83.3	60.2
Loop	33.3	40.0	85.7	62.5	66.7	77.8	50.0	59.9
Quanta	55.6	30.0	85.7	25.0	50.0	88.9	83.3	58.6
Realtek	44.4	50.0	78.6	25.0	66.7	77.8	66.7	58.0
Taiwan Cellular Corp	66.7	30.0	85.7	87.5	33.3	38.9	66.7	58.0
Picvue	55.6	70.0	92.9	50.0	16.7	44.4	83.3	57.8
Compeq	66.7	20.0	85.7	12.5	50.0	88.9	83.3	56.9
Asustek	55.6	20.0	85.7	12.5	50.0	100.0	83.3	56.9
ZyXEL	44.4	40.0	78.6	25.0	66.7	77.8	66.7	56.5
ASE	55.6	90.0	85.7	50.0	16.7	33.3	66.7	56.4
Taishin Bank	44.4	80.0	78.6	37.5	33.3	38.9	83.3	55.2
SPIL	55.6	90.0	85.7	37.5	16.7	33.3	66.7	54.5
MTI	22.2	50.0	78.6	25.0	66.7	72.2	66.7	53.9
Fubon Bank	33.3	70.0	78.6	50.0	33.3	27.8	83.3	52.3
CPT	44.4	60.0	85.7	50.0	16.7	33.3	83.3	51.9
Far Eastern Textile	55.6	60.0	85.7	50.0	16.7	33.3	66.7	51.9
Wintek	22.2	70.0	78.6	50.0	16.7	38.9	100.0	51.5
UWCCB	44.4	80.0	78.6	37.5	16.7	27.8	83.3	51.1
Ambit	33.3	40.0	71.4	25.0	66.7	77.8	33.3	50.5
Formosa Plastics	33.3	60.0	85.7	50.0	33.3	27.8	66.7	50.2
Yageo	33.3	40.0	85.7	12.5	50.0	44.4	100.0	49.9
Nan Ya Plastics	44.4	60.0	85.7	50.0	16.7	27.8	66.7	49.4
UMC	55.6	70.0	28.6	62.5	16.7	38.9	83.3	49.2
Compal	44.4	20.0	92.9	12.5	50.0	50.0	83.3	48.8
Cathay Life	44.4	70.0	85.7	25.0	16.7	27.8	83.3	48.8
Chinatrust Bank	44.4	90.0	35.7	37.5	16.7	27.8	83.3	46.1
CDIB	22.2	70.0	78.6	25.0	16.7	33.3	83.3	45.2
Delta	55.6	30.0	78.6	25.0	66.7	22.2	33.3	45.0
Hon Hai	66.7	20.0	85.7	25.0	50.0	27.8	33.3	44.6
ACM	55.6	30.0	85.7	25.0	50.0	22.2	33.3	43.6
Procomp	44.4	20.0	78.6	25.0	66.7	33.3	33.3	43.5
Acer	44.4	30.0	85.7	12.5	33.3	27.8	83.3	43.4
ICBC	33.3	70.0	71.4	25.0	16.7	16.7	83.3	43.3
First Bank	22.2	80.0	21.4	25.0	16.7	16.7	83.3	35.6
Chang Hwa Bank	22.2	70.0	21.4	25.0	16.7	16.7	83.3	34.1

Source: CLSA Emerging Markets

Patterns in the scores – Taiwan

	Question	"Yes" score in in country sample (%)	Comments
1	Explicit public statement placing a priority on CG	55.3%	More than 50% of Taiwan companies have explicitly placed corporate governance as a priority. Banks and traditional manufacturing companies usually have no such explicit commitment.
2	Management incentivised towards a higher share price	74.5%	Most senior managers of Taiwan listed companies are shareholders of the companies. Therefore senior managers have an incentive to maximise shareholder value and share price.
3	Sticking to clearly defined core businesses	74.5%	Taiwnese companies, especially technology companies, are usually very focused and make few investments outside of their fields.
4	Having an appropriate estimate of cost of equity	29.8%	Only about 30% of our sample gave an indication of cost of equity that was close to our estimate using CAPM.
5	Having an appropriate estimate of cost of capital	31.9%	Most companies in Taiwan lack a good grasp of WACC.
6	Conservatism in issuance of equity or dilutive instruments	74.5%	Most companies have not issued equity or warrants for financing of acquisitions/projects in a way that raised controversy.
7	Ensuring debt is manageable, used only for projects with adequate returns	51.1%	Taiwan companies have generally exercised prudence in their use of debt.
8	Returning excess cash to shareholders	38.3%	Technology companies in Taiwan usually have too much cash on their balance sheet, which brings down their ROEs.
9	Discussion in Annual Report on corporate governance	4.3%	More than 95% of the companies have no section in the annual report devoted to corporate governance. The notable exceptions are TSMC and Bank Sinopac.
10	Disclosure of financial targets, eg 3-5 year ROA/ROE	21.3%	Most companies in Taiwan have profit margin targets, but few have targets on returns.
11	Timely release of Annual Report	66.0%	Most Taiwan companies produce their annual reports within four months of the end of the financial year.
12	Timely release of semi-annual financial announcements	91.5%	To meet local regulations, semi-annual results are announced within two months.
13	Timely release of quarterly results	91.5%	Quarterly results are released one month after the quarter has ended, in keeping with the stock exchange's regulations.
14	Prompt disclosure of results with no leakage ahead of announcement	61.7%	Most companies announce their results within two working days of the board meeting to confirm the results. In some cases, however, share prices move ahead of the actual results announcement.
15	Clear and informative results disclosure	63.8%	Generally speaking, financial reports are clear and informative.
16	Accounts presented according to IGAAP	70.2%	Most companies' results are presented so as to be consistent with IGAAP.

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Patterns in the scores – Taiwan (continued)

	Question	"Yes" score in in country sample (%)	Comments
17	Prompt disclosure of market sensitive information	21.3%	Relevant information is not always disclosed promptly.
18	Accessibility of investors to senior management	63.8%	Most companies in Taiwan make their senior managers accessible to analysts and institutional investors.
19	Web-site where announcements updated promptly	29.8%	Most companies in Taiwan do have an English-language web-site. However, few post their financial results there.
20	Board and senior management treatment of shareholders	89.4%	Most companies aim at maximising shareholder value.
21	Chairman who is independent from management	14.9%	Most chairmen are founders of the companies and are very involved in management.
22	Executive decisions by management committee comprised differently from Board	72.3%	More than 70% of the companies under our survey have an executive management team that is different from the board.
23	Audit committee chaired by independent director	100.0%	Listed companies in Taiwan are required to have an independent audit committee.
24	Remuneration committee chaired by independent director	12.8%	Very few companies in Taiwan have an independent remuneration committee. However, in contrast to senior management, board members in Taiwan are generally not that well compensated.
25	Nominating committee chaired by independent director	100.0%	All companies surveyed have a nominating committee.
26	External auditors unrelated to the company	95.7%	In almost all cases that we know of, the auditors are independent of the company.
27	No representatives of banks or other large creditors on the Board	68.1%	Most Taiwan companies do not have their bankers or creditors on the board.
28	Board plays a supervisory rather than executive role	36.2%	In most cases the board is not substantially different from the key management personnel.
29	Non-executive directors demonstrably independent	6.4%	In very few cases are board directors demonstrably independent.
30	Independent, non-executive directors at least half of the Board	10.3%	Only about 10% of Taiwan companies have more than half the board made up of independent directors.
31	Foreign nationals presence on the Board	23.4%	Very few companies in Taiwan have foreign nationals on the board.
32	Full Board meetings at least every quarter	93.6%	Most companies have board meetings quarterly.
33	Board members able to exercise effective scrutiny	68.1%	Most companies in Taiwan do provide their directors with the necessary information for effective scrutiny of the company.
34	Audit committee that nominates and reviews work of external auditors	44.7%	Audit committees are usually not very effective.
35	Audit committee that supervises internal audit and accounting procedures	46.8%	As above

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Patterns in the scores – Taiwan (continued)

	Question	"Yes" score in in country sample (%)	Comments
36	Acting effectively against individuals who have transgressed	27.7%	In most cases where companies have made decisions that disadvantaged minorities, the companies go unpunished.
37	Record on taking measures in cases of mismanagement	27.7%	Companies very rarely take action against mismanagement.
38	Measures to protect minority interests	14.9%	Very few companies in Taiwan actively take measures to protect minority shareholders.
39	Mechanisms to allow punishment of executive/management committee	29.8%	Few companies have the mechanism to punish management for transgressions.
40	Share trading by board members fair and fully transparent	51.1%	Insider trading still frequently occurs.
41	Board small enough to be efficient and effective	80.9%	The average Board size is ten.
42	Majority shareholders treatment of minority shareholders	34.0%	Most companies make little effort to protect minority shareholders' interests. Furthermore, the law provides little recourse for minority shareholders.
43	All equity holders having right to call General Meetings	53.2%	In general, shares owned by minorities are ordinary shares where all shareholders can call for general meetings.
44	Voting methods easily accessible (eg through proxy voting)	100.0%	Voting methods in Taiwan are accessible.
45	Quality of information provided for General Meetings	95.7%	In most cases, the necessary information is provided at general meetings.
46	Guiding market expectations on fundamentals	51.1%	Companies in Taiwan still need to make an effort to better guide expectations.
47	Issuance of ADRs or placement of shares fair to all shareholders	42.6%	Major shareholders of tech companies often try to issue DRs at premium to local price.
48	Controlling shareholder group owning less than 40% of company	68.1%	In most cases, the major shareholder owns less than 40% of the company.
49	Portfolio investors owning at least 20% of voting shares	31.9%	Foreign ownership of Taiwan companies is still generally low.
50	Priority given to investor relations	74.5%	In most cases, the post of investor relations is important in the company and this person usually reports to the CEO directly.
51	Total Board remuneration rising no faster than net profits	83.0%	Board remuneration ranges from 0-6% of net profit. In the last five years, most companies' board remuneration increased by less than net profit.
52	Explicit policy emphasising strict ethical behaviour	97.9%	Almost all companies surveyed have a public statement emphasizing ethical behaviour.
53	Not employing the under-aged	85.1%	Companies in Taiwan are legally required not to employ anyone under-aged. However, what they do outside Taiwan is not regulated.

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Patterns in the scores – Taiwan (continued)

	Question	"Yes" score in in country sample (%)	Comments
54	Explicit equal employment policy	76.6%	Most companies in Taiwan have an explcit equal employment policy. However, in practice, gender discrimination is still a problem.
55	Adherence to specified industry guidelines on sourcing of materials	63.8%	Most companies adhere to industry guidelines on sourcing materials.
56	Explicit policy on environmental responsibility	25.5%	Only about a quarter of the Taiwan companies are explicitly environmentally conscious.
57	Abstaining from countries where leaders lack legitimacy (Myanmar)	100.0%	No companies under our survey has investments in Myanmar.

Source: CLSA Emerging Markets

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Thailand – Concerted moves

High CG BUYs/Low CG SELLs

Company	CG Score (%)	Re-rating drivers
High CG BUYS		
AIS	77.8	Strong growth despite economic back drop and attractive valuations. BUY.
BEC W	71.5	Good CG and defensive play, with improving earnings. BUY.
TAC	68.9	Renewed aggressive ad growth as Telenor takes hold of the company. BUY.
MAKRO	67.4	Defensive play with room for margin expansion. BUY.
PTTEP	63.1	Defensive, good weak baht stock, with stable growth. BUY.
Low CG SELLs		
CCET	36.9	Poor CG may become more recognised, weak exports of concern. SELL.
COCO	33.8	De-listing risk, no room for share price movement. SELL.
TA	46.9	Overhang of the WCS deal will contain upside performance. SELL.
DELTA	49.4	High exposure PC sector a net negative, with weak overall exports. SELL.
TFB	58.4	New capital raising will surprise, as will NPL growth. SELL.

Source: CLSA Emerging Markets

Latest CG developments

Country ratings for macro determinants of CG

	Rating (1-10)
Rules and regulations	7
Enforcement and regulation	2
Political/regulatory environment (ie, interference)	3
Adoption of IGAAP	5
Institutional mechanisms and CG culture	4

Source: CLSA Emerging Markets

Institute of Directors Association (IOD) to support CG in Thailand

The Stock Exchange of Thailand's (SET) desire to drive good corporate governance has led to the creation of the Thai Institute of Directors Association (IOD) which was established in October 1999. It is supported by the Bank of Thailand and The Stock Exchange of Thailand. The intention of the SET is to boost the transparency and integrity of accounting of listed companies with the IOD providing a forum for the development of Thailand's CG. A highlight of the SET's mission statement for 2003 reads as follows:

> *To be one of the most attractive capital markets in Asia by providing quality products, fairly representing the Thai economy with effective risk management tools and international standards of enforcement and corporate governance.*

IOD seminars support good CG education

The SET continues to promote above all else: fairness, transparency, accountability and the appropriate market value for listed companies. The IOD offers Director's certification programmes to help ensure improved CG, as well as a Chairman 2000 course which guides Chairmen to steer Boards toward good CG. Recent seminars focus on such topics as:

- Do independent Directors add value?
- Efficiency of the audit committees
- Good corporate governance . . . a way to protect shareholders
- Corporate governance to attract foreign capital

Local mutual funds will require a 'seal of corporate governance'

It is expected that during 2001, local mutual funds in Thailand will require companies in which they invest to acknowledgment some sort of good CG or provide an outline of measures in place to ensure good CG. This will likely be a primary driver for Thai corporates to embrace the concept.

Best and worst in recent CG events

Siam Cement's de-restructuring

Just when we were hoping for real change within the Kingdom's largest conglomerate, Siam Cement announced a plan to upgrade non-core operations to core. On 1 January, the company announced the subsidiaries, previously considered 'potential' core businesses, were upgraded to core businesses. They included Ceramics, Construction materials and Distribution. The key criteria of profitability for these businesses was not met, and yet they were upgraded to core, leaving investors concerned about SCC's corporate governance. At the same time, where SCC was to sell off non-core holdings, it re-classified these holdings within holding companies. Such corporate moves instead of concrete steps towards outright disposal suggests there will be less emphasis on exiting non-core businesses.

Thai Farmers Bank provisions and AMC

TFB's bank financial statements reveal a low level of NPLs at the bank. However, TFB's asset management companies hold considerable NPLs and are indeed fully owned by the bank. We view that a 100%-held subsidiary holding NPLs of the bank, is effectively the same as the bank holding these NPLs. In consolidated accounts this is the case, but more often than not, we are supposed to be impressed with the 'bank' figures excluding the AMC's. At the same time, the bank's provision expenses show nothing in the way of new provisions during 2000, making the appearance of a clean, healthy bank. However, losses on the diminution of value of assets is booked in the operating-expense line, somewhat concealing the ongoing deterioration of assets within the bank and its AMCs.

Standard Chartered – Nakornthon Bank

Standard Chartered bank bought one of the local nationalised banks and has set a new standard for bank reporting – we hope. In its 1999 annual report, it provides a 'risk to invest' section which includes substantial details on major delinquent debtors. This includes the size of NPLs outstanding to these groups, the types of facilities, the date the bank filed a complaint with the courts, a progress report and a view on the forecast outcome. We do not expect to see this sort of information in the major banks' annual reports in 2000, but we hope to be proved wrong.

BEC managing cash in the interest of shareholders

BEC World's sitting on US$100m cash pile from 1997 flotation was the subject of criticism particularly during the Internet hype. However, the investment community has changed their tune since the Asian Internet stocks went into meltdown, praising BEC for having the best New Economy vision in Thailand. We appreciate the Maleenond Family's, BEC's majority shareholder, conservative financial management and a commitment to revenue-generating activity. Last year, its traditional TV-advertising business contributed to a +40% jump in net profit. We also admire the family's forfeiture of annual bonus payment in 1998 and 1999, and the generous dividend payment of 99% and 127% of net profit in those respective years.

TAC's CG to improve with Telenor as the largest single shareholder

Total Access is cleaning up its act and quickly shedding its negative reputation as a family-run company. The move with Telenor has achieved a greater presence in the overall management of the company following the acquisition of its 30% stake. The installation of a new COO and CFO from Telenor has resulted in greater openness and access to management. Telenor is now the largest single shareholder at 40%, via its direct 30% holding and indirect share through United Communications. Their presence dwarfs that of the family which have been diluted to 10%. Going forward, we believe the company is poised to keep improving in the area of CG.

Companies with CG upside potential

Company	CG Score (%)	Events that could change CG score
TFB	58.4	❑ Foreign bank partner ❑ Full and transparent disclosure of risks ❑ Emphasis on the shareholder first
TA	46.9	❑ Acquisition of WCS at a fair price ❑ Decreased CP Group presence post share swap ❑ Greater management presence from strategic shareholders
BBL	54.8	❑ Improved flow of information to shareholders and analysts ❑ Greater accessibility to executive staff to understand bank operations
RATCH	48.5	❑ Management /Board primarily from government, could surprise with good CG ❑ Better flow of information to analysts on a regular basis

Source: CLSA Emerging Markets

Companies with CG downside risk

Company	CG Score (%)	Events that could change CG score
AIS	77.8	❑ Acquisition of DPC may reduce transparency ❑ Telekom Malaysia swapping shares into AIS could dilute management focus ❑ Concentration of ownership by SHIN (40%), actions could potentially conflict CG (ie dividend payout)
BEC	71.5	❑ Capital raising without the ability to generate a return ❑ If current professionalism within family changes ❑ If excess cash is used to benefit major shareholders at the expense of minorities, unlike in the past
TAC	68.9	❑ Telenor fails to change TAC's operating methods and CG ❑ The rapid expansion under way blows out the balance sheet ❑ Concession conversion brings in the ToT as a large shareholder

Source: CLSA Emerging Markets

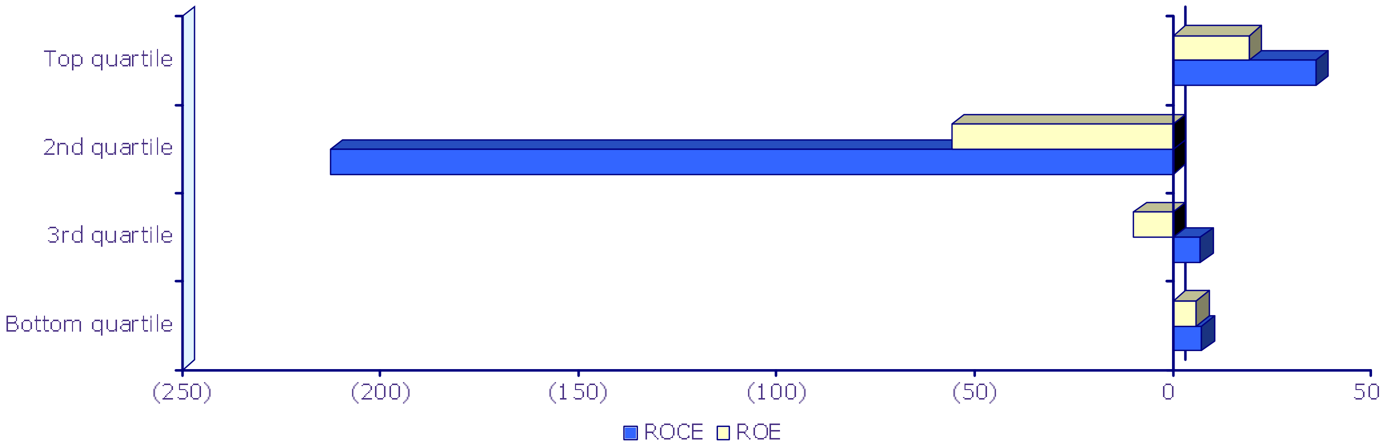
CG and financial performance

CG to ROCE, ROE and EVA™ for Thailand sample

	Quartile CG ranking				Average of
	Top	Second	Third	Bottom	Country basket
ROCE (%)	36.0	(212.7)	7.0	7.3	(33.7)
ROE (%)	19.2	(55.8)	(9.9)	5.8	(11.0)
EVA™/invested capital (%)	2.6	(43.1)	(14.9)	(2.2)	(15.1)

Source: CLSA Emerging Markets

CG rankings to ROE and ROCE (%)



Source: CLSA Emerging Markets

- Within our Thailand coverage, companies that come into the top quartile for CG, have significantly better financial performance ratios than the market, as well as consistently better performance ratios than second, third and fourth quartiles. The correlation between CG and financial performance appears strong in Thailand.
- On FY00 ROCE, the average for our Thailand sample (20 companies) is minus 33.7%, due to especially poor performance for banks. The top quartile, however, had an average ROCE of 36% (with the top two companies having a 50% ROCE). The bottom quartile had a ROCE of 7.3%.
- Similarly for ROE, the top quartile in our sample had an average ROE of 19.6% (for the top two CG companies it is 24% average ROE), the average of the sample is minus 11% and the bottom quartile showed an average ROE of 5.8%. The second and third groups had negative ROE.
- For EVA™ over Invested Capital, the average of the sample is minus 15.1%. The top quartile had an average of 2.6% while the bottom quartile had a EVA™/IC average of minus 2.2%. Groups 2 and 3 see a negative EVA™/IC.
- The exceptionally strong financial-performance ratio for the top quartile comprises the simple averages of Advanced, BEC World, Total Access, Hana Microelectronics and Siam Makro. Advanced Info and BEC World stand out with the best performance ratios of the group.

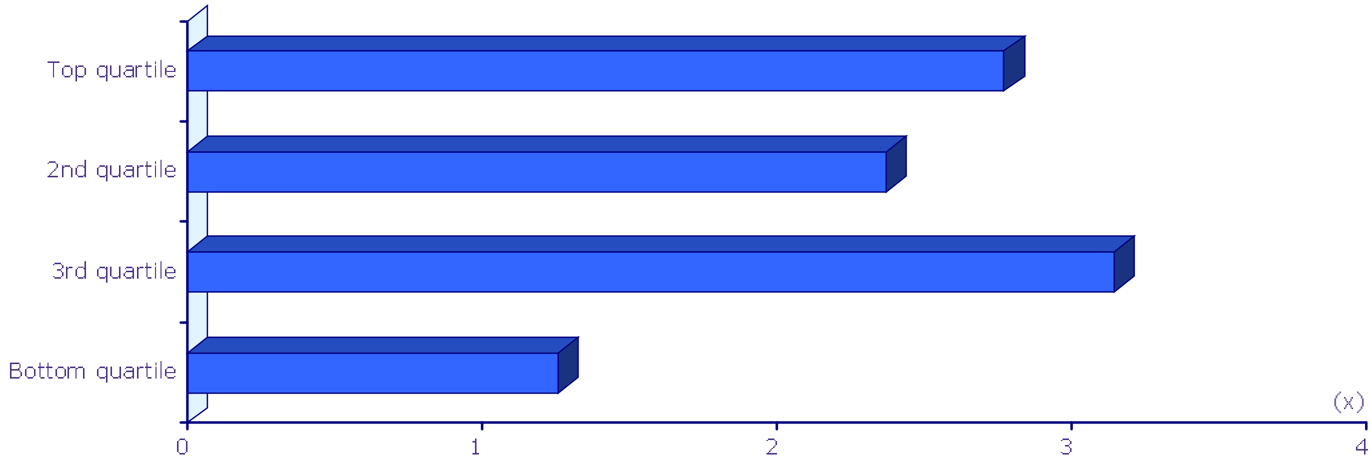
CG and valuations

CG to PE and PB for Thailand sample

	Quartile CG ranking				Average of
	Top	Second	Third	Bottom	Country basket
FY01 PE (x)	15.5	23.0	10.6	258.9	62.5
FY00 PB (x)	2.8	2.4	3.1	1.3	2.5

Source: CLSA Emerging Markets

CG rankings and PB



Source: CLSA Emerging Markets

- There appears to be a PB premium for the best CG group, at 2.8x vs 2.5x for the basket. Only one group, the 3rd quartile shows a higher PB ratio, at 3.1x. Given the high ROEs of the companies within the top quartile, the higher PB ratios are understandable – with AIS's ROE at 28% and BEC World's ROE at 21%.
- For PEs, the average of our sample was 62.5x, with the top quartile at a significantly lower 15.5x. The bottom quartile showed PE of 259x, which is certainly skewed with little earnings at a component company. PE correlations with CG appear somewhat less significant than other measures for Thai companies because of the distortion caused by companies with little or no positive earnings.
- The best companies in terms of CG, remain at a significant discount to the country basket, at 22-23x for AIS and BEC World. However, if we strip out the major outlier in PE, the country basket falls to 16.6x – putting the top CG quartile just about at parity.
- The PE valuations were distorted by COCO with a valuation at 751x. Without this in the calculation, the analysis shows the top quartile at a 7% PE discount to the market and the second group at a 38% premium.

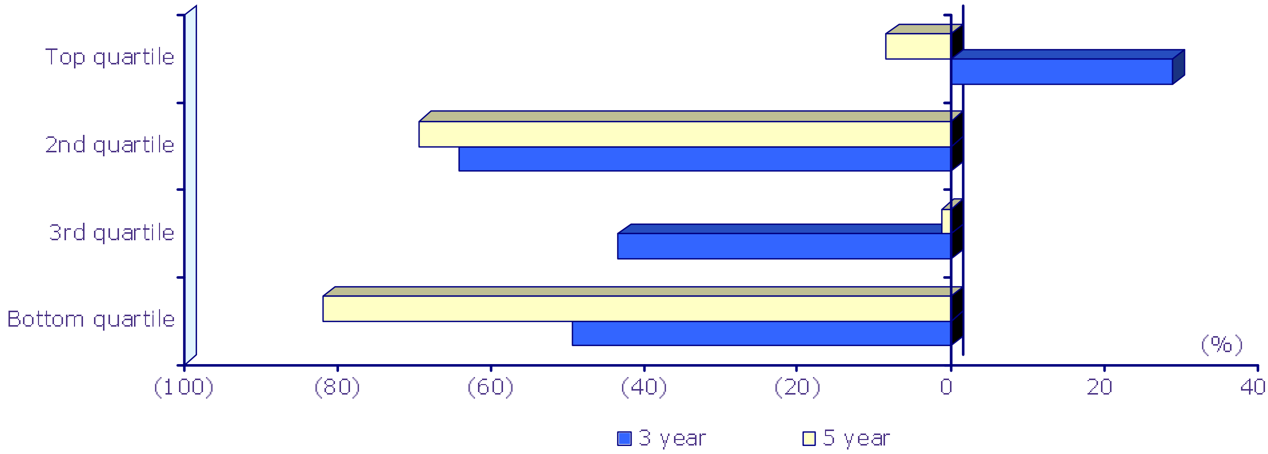
CG and share price performance

Share-price returns (US$) to end-2000

	Quartile CG ranking				Average of
	Top	**Second**	**Third**	**Bottom**	**Country basket**
1-year share-price performance	(16.9)	(8.2)	(53.7)	4.7	(17.7)
3-year share-price performance	28.9	(64.0)	(43.3)	(49.4)	(30.4)
5-year share- price performance	(8.4)	(69.4)	(1.2)	(81.9)	(41.9)

Source: CLSA Emerging Markets

CG rankings and three- and five-year share-price performance to end-2000



Source: CLSA Emerging Markets

- Three- and five-year performances show better correlation to CG than one-year, although not a perfect one. The first quartile for CG was up 28.9% over the past three years, while the bottom group was down 49%. On five years, the first group was down 8.4% vs the last group down 82%.
- There is limited correlation over one year, which suggests that the CG scores and share price performance should be considered for the long term primarily.
- For the past three years, the average return of the Thai basket provided a return of -30%, but the top quartile generated positive returns of 29%. This compares to the bottom quartile providing an average return of -49%.
- For the past five years, the average return of the Thai basket was -42%, however the top quartile was down 8% this compares with the last quartile's -82%.

Thailand companies sorted by CG

Company name	Discipline 15%	Transp. 15%	Indep. 15%	A/cability 15%	Resp. 15%	Fairness 15%	Social 10%	Wgtd avg 100%
AIS	55.6	70.0	92.9	100.0	66.7	88.9	66.7	77.8
BEC	33.3	80.0	78.6	62.5	83.3	94.4	66.7	71.5
Total Access	33.3	40.0	85.7	100.0	66.7	88.9	66.7	68.9
HANA	44.4	60.0	78.6	75.0	50.0	100.0	66.7	67.9
Makro	33.3	50.0	78.6	87.5	66.7	88.9	66.7	67.4
PTTEP	44.4	70.0	78.6	50.0	50.0	94.4	50.0	63.1
Egco	44.4	90.0	28.6	50.0	50.0	100.0	83.3	62.8
Siam Commercial Bank	55.6	90.0	42.9	75.0	33.3	72.2	66.7	62.0
Thai Farmers Bank	55.6	80.0	28.6	75.0	33.3	72.2	66.7	58.4
BBL	44.4	80.0	28.6	62.5	33.3	72.2	66.7	54.8
GRAMMY	22.2	50.0	28.6	50.0	66.7	88.9	66.7	52.6
UBC	44.4	50.0	21.4	62.5	66.7	33.3	83.3	50.1
DELTA	44.4	40.0	21.4	62.5	50.0	88.9	33.3	49.4
Ratch	44.4	70.0	21.4	37.5	33.3	83.3	50.0	48.5
TA	22.2	60.0	42.9	87.5	16.7	38.9	66.7	46.9
LH	11.1	60.0	21.4	50.0	66.7	50.0	66.7	45.5
BECL	33.3	80.0	21.4	37.5	33.3	38.9	66.7	43.3
Banpu	22.2	80.0	21.4	37.5	16.7	44.4	66.7	40.0
CCET	22.2	40.0	21.4	62.5	33.3	33.3	50.0	36.9
Coco	11.1	50.0	21.4	37.5	16.7	33.3	83.3	33.8

Source: CLSA Emerging Markets

Patterns in the scores – Thailand

	Question	"Yes" score in in country sample (%)	Comments
1	Explicit public statement placing a priority on CG	5.0%	Few companies inThailand have a mission statement placing a priority towards good corp. governance. The only exception in our survey was SCB.
2	Management incentivised towards a higher share price	15.0%	Thai listed companies are still largely dominated by controlling family shareholdings.
3	Sticking to clearly defined core businesses	85.0%	The majority of listed companies tend to have very focused business lines. Those that have tried to expand like Grammy have been largely unsuccessful.
4	Having an appropriate estimate of cost of equity	5.0%	Only a handful of companies have explicit hurdle rates, thus investment policies are reflected in poor-return projects now dragging the economy with a low cap utilisation rate of only 55%.
5	Having an appropriate estimate of cost of capital	10.0%	Use of public debt is increasing now that rates on the bond market are getting excessive low due to the hunger for yield.
6	Conservatism in issuance of equity or dilutive instruments	70.0%	Although most have issued equity in the past, the majority of this was done pre-crisis. The turbulent market and poor economic outlook are turning off the taps on new equity.
7	Ensuring debt is manageable, used only for projects with adequate returns	65.0%	Gearing is an issue for many Thai corporates, especially given most of the larger ones were dollar indebted ahead of the baht float. Moreover, the returns being generated from the projects undertaken by in large have failed to generate the requisite returns.
8	Returning excess cash to shareholders	55.0%	Most have been unable to raise cash through any means regardless due to falling profits.
9	Discussion in Annual Report on corporate governance	15.0%	Family dominated companies in Thailand have not yet waken up to the importance of CG. Strangely only the SCB, TFB and Egco annuals have these CG sections.
10	Disclosure of financial targets, eg 3-5 year ROA/ROE	0.0%	With many corporates living hand to month, ROA and ROE targets are discarded luxury.
11	Timely release of Annual Report	100.0%	A Stock Exchange of Thailand requirement for listed companies.
12	Timely release of semi-annual financial announcements	100.0%	As above
13	Timely release of quarterly results	100.0%	As above
14	Prompt disclosure of results with no leakage ahead of announcement	75.0%	Most companies are prompt in the release of their results.
15	Clear and informative results disclosure	55.0%	A strong disparity between companies here, with many not reporting relevant information in a prompt manner.
16	Accounts presented according to IGAAP	90.0%	Many of the larger companies with U.S. listing aspirations have moved to IGAAP. However pockets of cosmetic accounting still exists, like TAC's liberal depreciation policy.

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Patterns in the scores – Thailand (continued)

	Question	"Yes" score in in country sample (%)	Comments
17	Prompt disclosure of market sensitive information	40.0%	Market information is not always disclosed fairly or promptly. Hence in many instances share prices in many instances have already moved well ahead of the official release.
18	Accessibility of investors to senior management	50.0%	Limited management resources in most companies put a strain on the ability to access management directly. Only the larger organisations with a strong CG focus like BEC World provide good access.
19	Web-site where announcements updated promptly	35.0%	Although a majority of these companies do have a bilingual web-site, the information and prompt updating of information is still weak spot.
20	Board and senior management treatment of shareholders	30.0%	This poor showing is again reflective of the family controlled nature of most Thai businesses. AIS, BEC and PTTEP stand out on this factor.
21	Chairman who is independent from management	35.0%	An overwhelming majority of chairmen are not independent.
22	Executive decisions by management committee comprised differently from Board	35.0%	For the most part there is no difference between the management committees and the board.
23	Audit committee chaired by independent director	100.0%	All companies surveyed had an independent audit committee.
24	Remuneration committee chaired by independent director	25.0%	Renumeration in Thailand is not that independent and financial rewards are not always a meritocracy.
25	Nominating committee chaired by independent director	10.0%	Again very few exceptions. Only two companies BEC World and TA were yes here.
26	External auditors unrelated to the company	100.0%	As should be the case the auditors are unrelated.
27	No representatives of banks or other large creditors on the Board	90.0%	Banks have not been a prominent feature of the board, but is changing with growing debt restructurings and debt/equity swaps like at TelecomAsia.
28	Board plays a supervisory rather than executive role	30.0%	Given the limited management resources in Thailand, there is a substantial overlap in roles and functions.
29	Non-executive directors demonstrably independent	70.0%	In most cases the non-executive directors are thought to be independent. The exceptions here are the large quasi state energy counters like PTTEP and Ratchaburi.
30	Independent, non-executive directors at least half of the Board	10.0%	Again reflecting the poor balance of power between incumbant family interests and minority shareholders.
31	Foreign nationals presence on the Board	25.0%	The Thai market is still very xenophobic, with very few companies like Makro, TAC, AIS, HANA, reflecting strategic foreign stakes.
32	Full Board meetings at least every quarter	100.0%	All hold regular meetings.

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Patterns in the scores – Thailand (continued)

	Question	"Yes" score in in country sample (%)	Comments
33	Board members able to exercise effective scrutiny	80.0%	In general the board members are well briefed with the exception of the Energy sector, which reflects its quasi state enterprise roots.
34	Audit committee that nominates and reviews work of external auditors	100.0%	The audit committee is mindful of reviewing external auditors.
35	Audit committee that supervises internal audit and accounting procedures	90.0%	Only LH and Grammy stand out as not having this control.
36	Acting effectively against individuals who have transgressed	75.0%	At least in rhetoric most of these companies have started to address this issue.
37	Record on taking measures in cases of mismanagement	0.0%	Despite the efforts toward good CG, the bark has little bite and there has been almost no progress in taking effective actions against mismanagement.
38	Measures to protect minority interests	85.0%	Certainly, attempts are made by most to try and safeguard the interest of all shareholders. However, this has not always been effective.
39	Mechanisms to allow punishment of executive/management committee	25.0%	The inability to punish wrongdoers in Thailand and accountability continues to be a lingering issue.
40	Share trading by board members fair and fully transparent	55.0%	The record is mixed with respect to share trading. This also reflects the lax insider trading laws and enforecment here in Thailand.
41	Board small enough to be efficient and effective	40.0%	The group decision making process here in Thailand has bloated many corporate boards. This is especially true in the big banks, Energy counters and TelecomAsia.
42	Majority shareholders treatment of minority shareholders	65.0%	Unfortunately, given that family interest supercede that of minority shareholders the incidence of this type of infringement is high.
43	All equity holders having right to call General Meetings	85.0%	In most cases equity holders in Thailand have the right to call a General Meeting.
44	Voting methods easily accessible (eg through proxy voting)	100.0%	Voting is quite accessible.
45	Quality of information provided for General Meetings	85.0%	Generally the information provided by the companies surveyed is considered satisfactory with the exception of the Thai banks: SCB, TFB, BBL.
46	Guiding market expectations on fundamentals	85.0%	Management are mostly interested in keeping the share price high. The exception have been the banks, which have capitulated on the idea of new capital raisings. Others still hope to tap the markets on any recovery.
47	Issuance of ADRs or placement of shares fair to all shareholders	85.0%	Most have not been able to issue anything under current market conditons. Also selling at these levels is too far off the peaks for most insiders.
48	Controlling shareholder group owning less than 40% of company	45.0%	The concentration of ownership in Thailand is high.

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Patterns in the scores – Thailand (continued)

	Question	"Yes" score in in country sample (%)	Comments
49	Portfolio investors owning at least 20% of voting shares	45.0%	The wide owenership of good CG investors is limited and concentrated in few big liquid counters like AIS, TAC, BEC, PTTEP.
50	Priority given to investor relations	70.0%	Most view the IR function as important enough to warrant direct access.
51	Total Board remuneration rising no faster than net profits	80.0%	The renumeration accurately reflects economic conditions and the financial performance of most Thai corporates with the exception of the Thai Banks.
52	Explicit policy emphasising strict ethical behaviour	0.0%	None of the Thai companies have a strong enough focus on good CG to have an explicit policy statement.
53	Not employing the under-aged	100.0%	This is a legal guideline enforced by Thai law.
54	Explicit equal employment policy	95.0%	Most companies have an explicit employment policy, but discrimination is practised anyway by most.
55	Adherence to specified industry guidelines on sourcing of materials	90.0%	Sourcing guidelines generally follow industry norms.
56	Explicit policy on environmental responsibility	25.0%	Very few companies have environmentally conscious policies. The ones that do us it for enhance public image like BEC, UBC and Grammy. Thailand's economy has grown rapidly via the exploitation of resources thus environment has been a secondary concern to economic growth.
57	Abstaining from countries where leaders lack legitimacy (Myanmar)	80.0%	Most companies have no investment in Myanmar with a notable exception PTTEP.

Source: CLSA Emerging Markets

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EEMEA – The good and the bad

High CG BUYs/Low CG SELLs within EEMEA

Company	Country	CG Score	Re-rating drivers
High CG BUYs			
Richemont	South Africa	82.6	Strong off-shore earnings, defensive properties. BUY.
Stanbic	South Africa	79.2	Renewed focus after a failed bid to buy them out. BUY.
FirstRand	South Africa	77.7	New management team is focused on shareholder value creation, with a large portion of their personal wealth invested in the company. BUY.
Akenerji	Turkey	52.5	Improvement in accountability. BUY.
Anadolu Efes	Turkey	58.7	Increased transparency with the merger of Turkish brewers. BUY.
Matav	Hungary	60.4	Regional expansion and well prepared for competition. BUY.
Low CG SELLs			
Datatec	South Africa	45.0	Poor disclosure – investigation into share trading. SELL.
Petkim	Turkey	36.6	State ownership decreases the accountability and independence of the company. SELL.
Isbank	Turkey	37.8	Ambitious yet poorly structured expansion plan. SELL.
Turkcell	Turkey	46.9	Amazing amount of negative news surprises. SELL.

Source: CLSA Emerging Markets

Latest CG developments – South Africa

South Africa ratings for macro determinants of CG

	Ratings (1-10)
Rules and regulations	7
Enforcement and regulation	4
Political/regulatory environment (ie, interference)	5
Adoption of IGAAP	8
Institutional mechanisms and CG culture	5

Source: CLSA Emerging Markets

Institute of director's takes the lead

The institute of directors initiated an investigation into corporate governance in 1994. The "King Report" was completed and accepted by the institute and its members in 1996 and later (September 2000) by the JSE listings committee. (Schedule 22 "Code of Corporate Practice and Conduct")

King Report requires disclosure of non-compliance

The King Report does not enforce the rules, however it forces companies to declare if they do not comply with the report. The report is currently under review and the amendments are due to be released in May 2001. Whereas the initial report dealt with the policies and procedures surrounding good corporate governance does not enforce the principles, the updated report will be more prescriptive and due for implementation in July 2001.

SA-GAAP is practically in line with IAS

The JSE forces companies to comply with SA-GAAP, which is in line with IAS. Most of the ALSI40 stocks (40 Largest companies listed on the JSE) have accepted and implemented the "King Report" which is reflected in the CG scores. Cross holdings and large family interests still plague some of these companies as disclosure and minority interests are often neglected.

Affirmative-action policies may have unintended consequences given the shortage of skills

The "King Report" makes special reference to affirmative action and empowerment and although it is not intended to have any negative effects or impact the political and social pressures on management cannot be ignored. The implementation of the Employment Equity Bill and adoption of affirmative action policies by management could lead to a break down in communication, effective management and shareholders interest due to the lack of skills available.

Latest CG developments – Turkey

Turkey ratings for macro determinants of CG

	Ratings (1-10)
Rules and regulations	8
Enforcement and regulation	4
Political/regulatory environment (ie, interference)	5
Adoption of IGAAP	4
Institutional mechanisms and CG culture	4

Source: CLSA Emerging Markets

New Capital Markets Law passes: a step in the right direction

The new Capital Markets Law enacted by parliament in mid-2000 is certainly a step in the right direction. The amended law, among other things, decreases the threshold for acquiring minority rights from 10% to 5% of the share capital and advances the rights of minority shareholders and increases the powers of the Capital Markets Board ("CMB"). It also enables the more proactive defense of minority shareholders' rights. The regulator, especially the new team that was appointed by end-2000 is putting in an admirable effort to tighten-up and improve standards. However, the implementation and enforcement of regulation, though clearly improved, has a long way to go to catch up. There are still major contradictions between and amongst commercial law, Capital Markets Law and Banking Law, which create legal loopholes and leeway to be exploited by the majority shareholders. This all undermines the efforts of the regulator.

Cukurova Elektrik saga continues – with no concrete results

Without a doubt, the most notorious group in Turkey with the worst CG is the Uzan group, which owns publicly-traded utilities Cukurova and Kepez. When the group bought these two companies, they inherited minority shareholders including Templeton. Since then, Templeton has been fighting against various abuses of company cashflow to the benefit of majority shareholders. With ratification of the new Capital Markets Law, the CMB is now also trying to flex its muscle and force majority shareholders to return the money to the company, and replace the management. The legal war between and amongst the CMB, the company and the minority shareholders continues. This case is a litmus test for CG practices in Turkey. If the CMB manages to achieve some tangible results in this court case, it will set a precedent and lead to substantial improvement across the board. However, the process remains limited and positive outcomes, if any, will take more time.

Best and worst in recent CG events – South Africa

King Report likely to be implemented in 2H01

The King Report is currently under review and the amendments should be implemented in 2H01. The revised report will be more prescriptive and management will have to focus on certain CG issues more clearly.

Companies that have lost confidence in investors will find it tough to attract funds

The recent meltdown in the TMT sector has brought about renewed focus on CG. During the rally, CG was placed behind potential capital gains and management got away with poor disclosure and decisions. Since the reversal, those South African companies who maintained good CG and disclosure, like Didata, have come off best. Companies in the bottom CG quartile of our universe, like Datatec, Naspers and CCH, have seen their share prices plummet to insignificance. Although some of these companies are now showing value, investor confidence has been destroyed and management will find it difficult to attract funds.

Take profit on Anglo-American: risks on transparency after DeBeers acquisition

Companies showing the highest CG scores are the large tradable stocks in the South African universe, and with the current volatility and uncertainty are bound to attract most of the cashflow. Anglo-American, the largest listed South African company, is currently highly rated in spite of its not-especially-high CG score (64.6%). This is due to its focus on commodities, scarcity and size in the South African index. With the potential of the Anglo consortium acquiring 45% of de Beers and the subsequent de-listing of de Beers, disclosure and transparency runs the risk of falling even further. Considering where we are in the commodity cycle this is not an ideal scenario; investors should take profit.

Best and worst in recent CG events – Turkey

Tender offer regulation is observed more strictly

The Capital Markets Board of Turkey ("CMB"), especially after the ratification of the new law started to act more strictly on CG matters. The CMB increasingly refuses to issue waivers for tender offers. For example, the acquisition of Viking Kagit, a small paper firm by a foreign party, failed to materialise because the foreign partner changed its mind after the CMB refused to grant a waiver to the company for tender offer. Moreover, the number of investigations by the CMB for manipulation and insider-trading allegations have increased substantially in 2000, especially after the new management of the CMB was appointed. Improvements on the implementation side have been encouraging but there is a lot of room for improvement.

Banks appear to be more transparent after the financial crisis

One of the better outcomes of the financial crisis has been the increased transparency of the banks, at least the large ones. Once it was apparent that the dirty laundry could no longer be hidden, the banks started to be much more transparent to both the investors and foreign creditors. The newly introduced risk management and group credit regulations are also steps in the right direction. However, improvement on these fronts will come gradually and we do not expect a quantum leap anytime soon. In short, there is still a long way for the Turkish banks' practices to catch up with world standards.

There is still no price for shares of banks that were taken over by the government

The authorities still could not find a legal solution to the banks that were taken over by the Deposit Insurance Fund. The shares of these banks are banned from trading. However, at the same time these shares are not legally taken over by the government like the ones once owned by the large shareholders. In reality, these banks are bankrupt so the shares are worth close to zero, although there may be few exceptions. Still, the minorities want to know what their shares could be worth, if any, either through market mechanism or through liquidation procedures. Fortunately, except for Demirbank, most of these banks were small in size and hence did not cause a large problem. However, history suggests that if a large bank were to fail the implications in both the local and international community would be very negative.

George Soros rebuffed by Turk Tuborg

Frustrated by the appalling financial performance of T. Tuborg (a Turkish brewer producing under the Tuborg brand as well as local brands), Quantum Fund asked for the appointment of another auditor to investigate financial performance but did not come up with any concrete results. Quantum is suspicious of transfer pricing to marketing affiliate Tuborg. Quantum owns 16.5% of the company and putting a brave fight against the Yasar Family who owns the majority of the shares has not yet managed to secure a seat on the Board of the company.

EEMEA companies with CG upside potential

Company	CG Score (%)	Events that could change CG score
Lukoil	15.4	❑ First US GAAP accounts due this year, also a planned ADR issue.
Sasol	54.2	❑ Going into IAS for the first time, and possible secondary listing in UK/US.
Didata	67.4	❑ Nasdaq listing will enforce higher CG standards.
Investec	75.0	❑ Prospects of a FTSE listing has forced the company to comply with international reporting standards. It will probably also result in the collapse of its shareholder structure.
Anadolu Efes	58.7	❑ Divestiture of a minority stake in the small-sized Abank and more timely release of IAS inflation adjusted accounts.
Tupras	36.6	❑ If a secondary offering is completed, the government shares will decrease to the minority and accountability and fairness will increase.

Source: CLSA Emerging Markets

EEMEA companies with CG downside risk

Company	CG Score (%)	Events that could change CG score
M-Cell	69.7	❑ Expansion into Africa, specifically Nigeria, may limit the extent of disclosure.
YKB	39.4	❑ They may continue to be shy about decreasing their group exposure.
Anglo American	64.6	❑ Should minorities accept the offer for de Beers, the company (45% held by Anglo) would be de-listed and disclosure reduced.
POAS	35.2	❑ It is possible for the new management to extract funds from the company at the expense of minorities.

Source: CLSA Emerging Markets

Correlations in CG – EEMEA

Correlation in the whole EEMEA sample

	Quartile CG ranking				Average of
	Top	Second	Third	Bottom	country basket
ROCE (%)	12.2	36.4	12.6	28.4	22.5
ROAE (%)	17.5	23.5	18.7	22.1	20.5
EVA™/IC (%)	13.5	5.9	0.4	3.3	5.7
FY01 PE (x)	11.0	12.4	12.0	14.1	12.4
FY00 PB (x)	2.8	5.4	1.8	2.2	3.2
1-year share-price performance	(21.6)	(16.9)	(41.9)	(49.9)	(29.5)
3-year share-price performance	(0.9)	64.8	(10.4)	(1.0)	13.6
5-year share-price performance	(7.1)	47.2	89.8	323.8	117.2

Source: CLSA Emerging Markets

The sample size for EEMEA is very heavily skewed towards CG scores for companies in Turkey and South Africa with very few scores for companies within CEE, namely Poland, Hungary, Czech and Russia, making the validity of this data questionable.

The huge discrepancy between the range of scores for Turkey compared to South Africa also make it difficult for regional comparisons to be meaningful – the average scores for South Africa are naturally much higher than that for Turkey. This makes intra- comparisons within the country much more interesting than inter-comparisons within EEMEA.

In order to outline more meaningful trends, we have therefore taken a look at the South African and Turkish data separately for the three test criteria:

1) CG and financial performance

2) CG and valuations

3) CG and share price performance

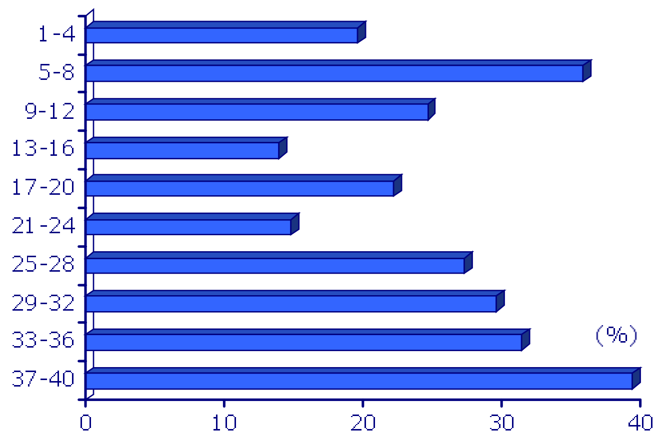
CG and financial performance – South Africa

CG to ROCE, ROE and EVA™ for South Africa

	Quartile CG ranking				Average of
	Top	Second	Third	Bottom	country basket
ROCE (%)	17.2	30.8	25.5	14.2	21.9
ROAE (%)	18.1	18.7	16.9	29.9	20.9
EVA™/IC (%)	12.8	18.5	1.7	2.0	8.5

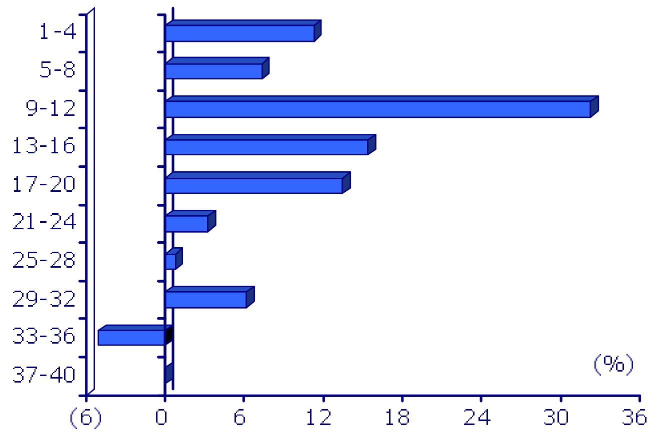
Source: CLSA Emerging Markets

CG rankings and ROAE



Source: CLSA Emerging Markets

CG rankings and EVA™



Source: CLSA Emerging Markets

- Within the South African universe of companies, it is difficult to identify a correlation between good corporate governance and financial performance and/or share-price performance. Evaluating the results of the South African universe, it is clear that companies scoring in the second and third quartile were rated higher than those in the top quartile. On further investigation, it was revealed that a large number of the companies that fell into the second and third quartile were either commodity-based companies or companies in the TMT sector.
- There is, however, a high correlation between market cap and CG scores. Most of the large cap, liquid stocks are held by foreign investors who pay a lot of attention to corporate governance.
- Commodity companies (Implats, Sappi, Aglo-Plats, Anglo American and Sasol) all scored below 70 on the CG survey (second and third quartile), but all have above average ROCE, ROAE, and EVA™/IC These companies have all benefited over the last three years from the strong US economy as well as their scarcity. Although the CG scores are below 70, they still score above the average of our total universe and the returns on offer weigh more heavily than the CG score.

- The TMT companies in our universe (Didata, Johncom, Johnnic and M-Cell) are all well-managed companies that were swept along with the world's TMT boom which inflated company ratings. All of these companies have a reasonable level of corporate governance scoring in the top half of our survey.
- In general, the international-shareholder base and tradability of South African companies adhere to high standards of corporate governance. However, the results are distorted due to regional sentiment and more than 35% of the market cap being commodity-based and therefore cyclical. Commodity companies have recently gone through a three-year boom, but with the slowdown of the world economy, US good corporate governance is going to become important again when selecting investments in South Africa and we expect the correlation between share-price performance and good corporate governance to be re-established.
- For FY00, the average ROCE for our South African universe (44 companies) is 22%. The top quartile, however, had an average ROCE of 17.2%, while the bottom quartile had a ROCE of 14.2%.
- For EVA™ over invested capital, the average for our universe is 8.5%. The top quartile had an average of 12.8% (17.1% for the top quartile of the total universe) while the bottom quartile had an EVA™/IC average of 2%.
- Although the second and third quartile were rated more highly than the top or bottom quartile due to the factors mentioned above investors still afforded a high premium to companies in the top, quartile relative to those in the bottom quartile.

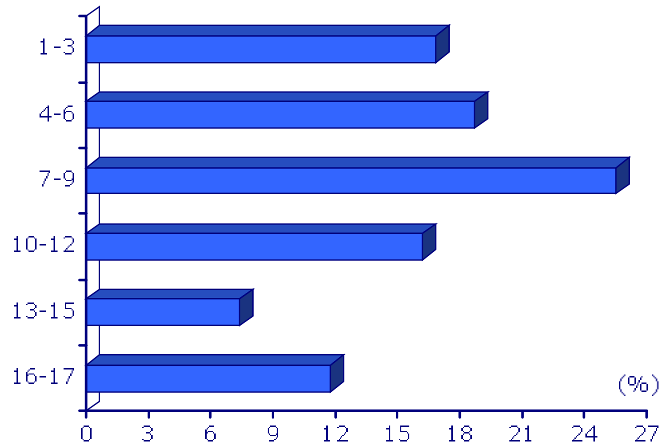
CG and financial performance – Turkey

CG to ROCE, ROE and EVA™ for Turkey sample

	Quartile CG ranking				Average of
	Top	Second	Third	Bottom	country basket
ROCE (%)	11.8	37.8	14.4	20.0	22.0
ROAE (%)	15.9	23.9	11.5	16.2	16.3
EVA™/IC (%)	(10.1)	(5.3)	(9.7)	8.9	(4.2)

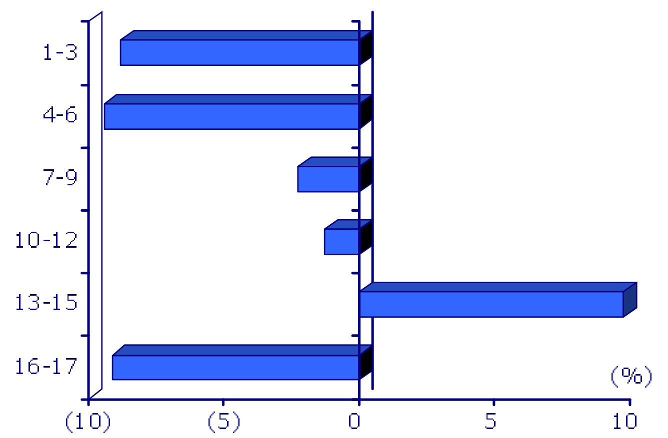
Source: CLSA Emerging Markets

CG rankings and ROAE



Source: CLSA Emerging Markets

CG rankings and EVA™



Source: CLSA Emerging Markets

- Within our Turkish coverage, there is a slight correlation between the high ranking of CG companies and financial performance despite the fact that the top quartile has performed worse then the rest of the sample.

- In all three performance-categories, the top quartile CG companies had the worst showing. However, one should remember the high-inflation environment in Turkey. The top CG companies all announce their inflation adjusted financials which state the true financial performance while low ranking CG companies inflation unadjusted numbers tend to overstate the financial performance. Because of accounting differences, we believe returns and market ratios provide a better metric for CG.
- Except for this anomaly at the top quartile, the high ranking CG companies perform better than low ranking quartiles. The second quartiles's ROCE and ROAE is 37.8% and 23.9% as opposed to 23.3% and 13.3% Turkish average.
- In the current environment, we do not believe EVA™/IC gives a meaningful performance criteria in Turkey for the simple fact that the associated risks and lack of a functioning market make it extremely difficult to attach cost of debt and cost of equity.
- Once again, outliers tend to be companies that do not report inflation-adjusted numbers such as POAS, AYGAZ and Akenerji. Anadolu Efes appears to combine good CG score with financial performance. Koc Holding on the other hand can not combine good CG with high financial performance reflecting newly developing focus on shareholder value.

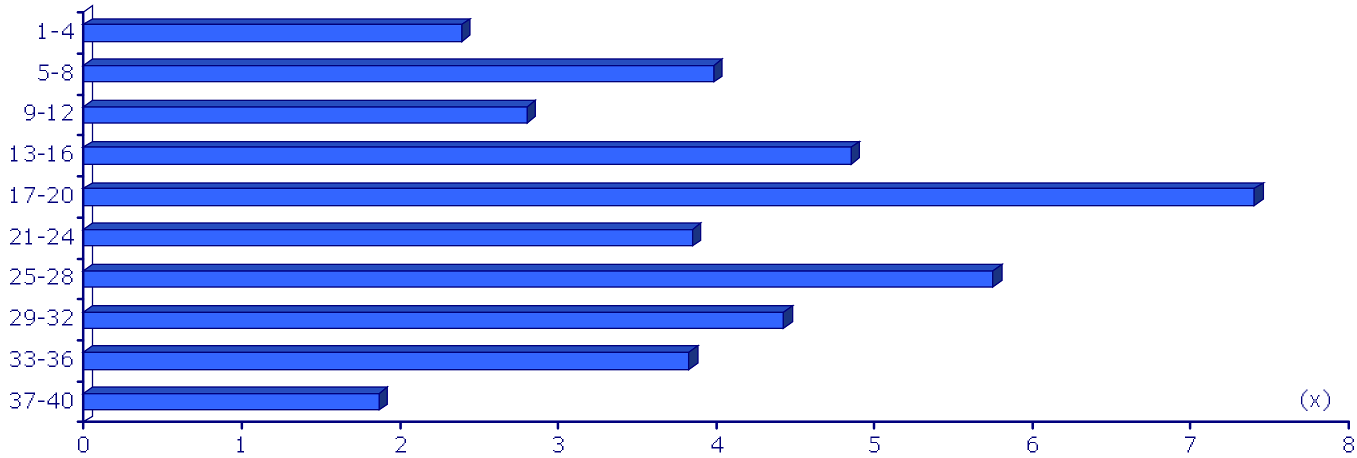
CG and valuations – South Africa

CG to PE and PB for the whole South African sample

	Quartile CG ranking				Average of
	Top	Second	Third	Bottom	country basket
FY01 PE (x)	11.0	12.9	10.7	11.8	11.3
FY00 PB (x)	2.2	5.3	5.1	1.9	3.6

Source: CLSA Emerging Markets

CG rankings and PB



Source: CLSA Emerging Markets

- The top quartile companies have an average PB of 2.2x relative to the 1.9x afforded to the bottom-quartile companies, the average for the universe is 3.6x which is higher than both the top and bottom quartile.
- The average of the second and third quartile is being pulled up by a few companies, which have extraordinary high PB ratios. (Alexander Forbes 14.4x, Billiton's 13.1x, Angloplats 11.1x, Mcell 11.4x.)
- These companies have benefited from the commodity cycle and the inflation of the TMT sector both of which should pull back to more realistic ratings

- Excluding the above companies from the second and third quartile the average drops to 2x and 3.5x respectively.
- The PE multiples are equally misleading in the consolidated format as two companies with a combined market capitalisation of less than US$1.0bn bring the average down. On a market cap weighted basis the average PE of the top quartile is 12.5x where on a simple average calculation it is 11.0.
- The second and third quartile is once again distorted by the highly-rated TMT sector and commodity companies. The bottom quartile is being bumped up by three companies (Coparex, Johnnic, and Johncom). Excluding these TMT counters the average PE multiple would be 5.6x.

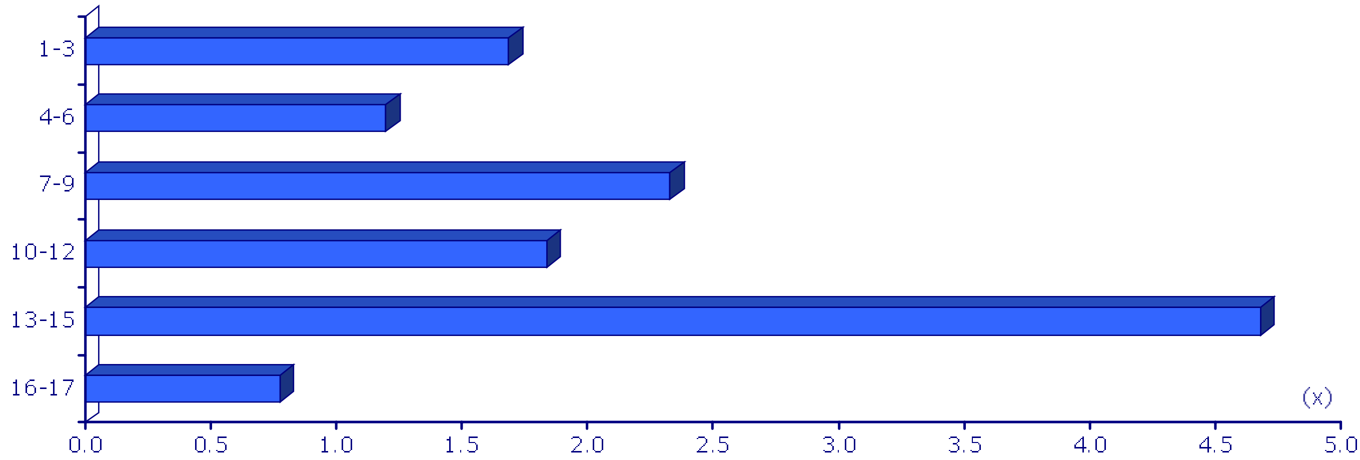
CG and valuations – Turkey

CG to PE and PB for Turkey sample

	Quartile CG ranking				Average of
	Top	Second	Third	Bottom	country basket
FY01 PE (x)	16.8	16.6	19.7	7.0	13.5
FY00 PB (x)	1.5	1.9	1.9	4.4	2.2

Source: CLSA Emerging Markets

CG ranks and PB



Source: CLSA Emerging Markets

- Companies with better CG scores also tend to have higher valuations, but once again the top quartile forms an anomaly here indicating that there are other factors in play.
- The most noticeable valuation premium is with regard to PE. The average of our Turkish sample is 13.5x (for the recently completed financial year) while for the top quartile, the average PE was 16.8x and for the lowest quartile, the average PE was 7.0x (almost half the sample average).
- For PB ratios, the accounting differences come into play once again. High PB ratios of the bottom quartile merely reflect the low book values of these companies (Tupras, Petkim and POAS) because of a lack of inflation accounting. Incidentally, these companies are have large fixed assets, which magnifies the importance of inflation accounting.
- The companies in the lowest decile for CG scores – Tupras, Petkim and POAS – are at a clear PE discount relative to the market.

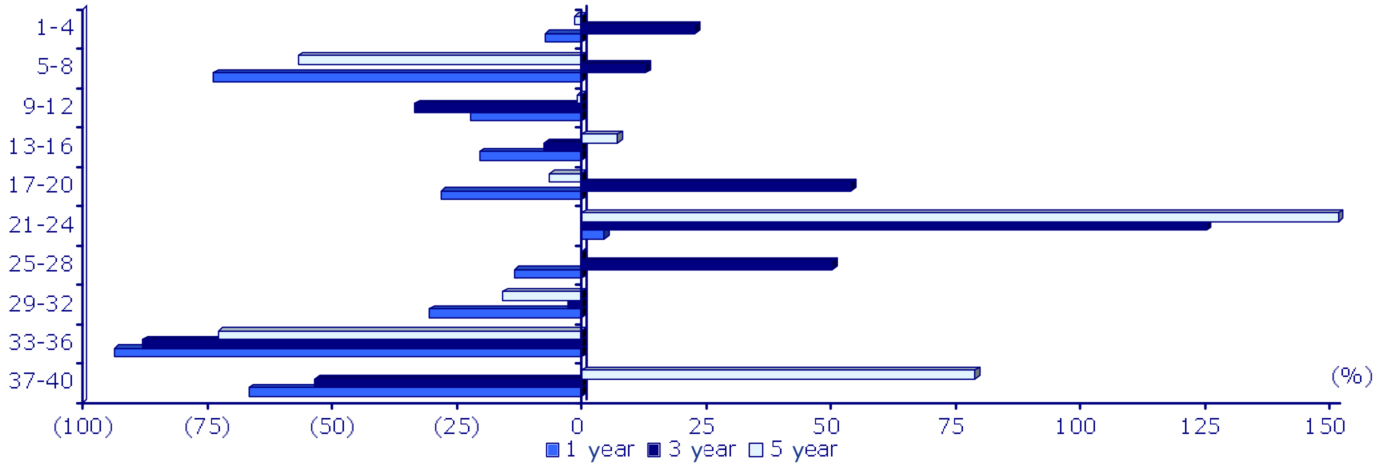
CG and share-price performance – South Africa

Share-price returns (US$) to end-2000 for South African sample

	Quartile CG ranking				Average of
	Top	Second	Third	Bottom	country basket
1-year share-price performance	(25.4)	(20.9)	(12.9)	(41.5)	(25.2)
3-year share-price performance	5.1	15.7	81.6	(42.5)	15.1
5-year share-price performance	(15.0)	0.3	70.7	10.0	16.7

Source: CLSA Emerging Markets

CG rankings and one-, three- and five-year share-price performance to end-2000



Source: CLSA Emerging Markets

- ❑ Since the adoption of the "King report" four years ago, investors have been paying more attention to good Corporate Governance and in theory should be prepared to reward companies who adhere to these principles. This, however, is not reflected in the share-price performance with the second and third quartile offering the most attractive returns.
- ❑ For the period one year and three years, the average return for companies in the top quartile was 25.4 and 5.1 respectively, while the bottom quartile only returned -41.5 and -42.5% for the same period.
- ❑ Performance figures for five years show no definite trend, but companies at the medium showed the best performance also outperforming the upper and lower quartile.

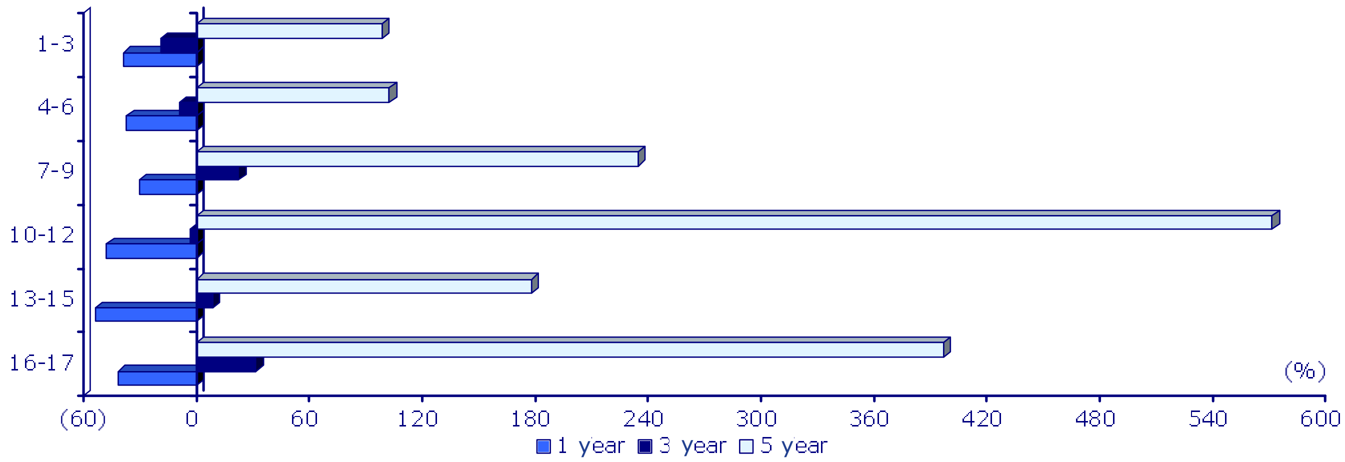
CG and share-price performance – Turkey

Share-price returns (US$) to end-2000 for Turkey sample

	Quartile CG ranking Top	Second	Third	Bottom	Average of country basket
1-year share-price performance	(57.0)	(49.4)	(50.4)	(46.3)	(41.5)
3-year share-price performance	(17.7)	12.2	1.7	24.2	3.7
5-year share-price performance	155.2	281.2	435.8	433.2	256

Source: CLSA Emerging Markets

CG rankings and one-, three- and five-year share-price performance to end-2000



Source: CLSA Emerging Markets

- In Turkey, bad CG seems to be highly rewarded in the long term. However, the share-price performance has been highly skewed for a number of reasons.
- Despite having low CG scores, banks have outperformed for reasons not related to the inflationary environment. Until recently, the high-inflation environment and high borrowing needs of the government facilitated a huge wealth transfer from the rest of the economy to the financial sector. Hence Isbank, despite having a CG score of 37%, managed to secure the top spot in five-year returns. As this trend reversed in 2000, the financial sector’s returns reversed sharply.
- Undiscovered high-growth companies a few years ago also skew the share-price performance. Two good examples are Vestel and Hurriyet both of whom were undiscovered and grew rapidly over the past five years. Although we are not fans of CG in these two companies, shareholders achieved abnormal returns.
- Some good CG companies have not been listed. For example, Anadolu Efes, which has provided its shareholders with abnormal returns, merged into a single company, so we are lacking past performance of this company. In a small market where the top quartile is formed by just three companies, any lack of data on one company can affect the analysis.
- The share-price return does not incorporate rights issues, a common practice in Turkey and dividends. This penalises companies that do not demand extra funds from shareholders.
- As believers of semi-efficient market theory, we may simply be trying to find excuses. The simple fact could well be that in a chronic inflation environment that has the potential to distort all financials, enormous leeway is given to management. Insufficient institutional funds may have distorted share-price performances as well.

South Africa companies sorted by CG

Company name	Discipline 15%	Transp. 15%	Indep. 15%	A/cability 15%	Resp. 15%	Fairness 15%	Social 10%	Wgtd avg 100%
Richemont	66.7	70.0	92.9	87.5	100.0	88.9	66.7	82.6
South African Breweries plc	77.8	70.0	92.9	87.5	83.3	88.9	66.7	81.7
Stanbic	88.9	70.0	42.9	87.5	83.3	88.9	100.0	79.2
Remgro	66.7	70.0	92.9	75.0	83.3	94.4	66.7	79.0
Anglogold	55.6	80.0	71.4	75.0	100.0	77.8	100.0	79.0
Bidvest	55.6	60.0	85.7	75.0	83.3	100.0	100.0	78.9
Coronation	66.7	50.0	85.7	87.5	100.0	88.9	66.7	78.5
Harmony	55.6	80.0	78.6	75.0	83.3	83.3	100.0	78.4
Goldfields	55.6	70.0	71.4	75.0	100.0	83.3	100.0	78.3
FirstRand	88.9	60.0	42.9	87.5	83.3	88.9	100.0	77.7
ABSA	77.8	70.0	42.9	75.0	83.3	94.4	100.0	76.5
Nedcor	66.7	70.0	42.9	87.5	83.3	88.9	100.0	75.9
BOE	55.6	70.0	50.0	87.5	83.3	88.9	100.0	75.3
Investec	88.9	60.0	42.9	75.0	83.3	83.3	100.0	75.0
Alexander Forbes	77.8	50.0	50.0	87.5	66.7	94.4	100.0	74.0
De Beers	55.6	30.0	92.9	75.0	83.3	77.8	100.0	72.2
Venfin	55.6	50.0	85.7	62.5	83.3	83.3	83.3	71.4
Rebhold	33.3	60.0	78.6	50.0	100.0	88.9	83.3	70.0
M-Cell	66.7	50.0	85.7	62.5	66.7	77.8	83.3	69.7
Billiton	33.3	70.0	28.6	75.0	83.3	100.0	100.0	68.5
Sanlam	66.7	80.0	71.4	50.0	50.0	88.9	66.7	67.7
Implats	55.6	50.0	92.9	75.0	66.7	44.4	100.0	67.7
Dimension Data	66.7	60.0	21.4	62.5	100.0	94.4	66.7	67.4
Old Mutual	66.7	50.0	78.6	50.0	66.7	88.9	66.7	66.8
Liberty	66.7	70.0	78.6	50.0	50.0	83.3	66.7	66.5
Sappi	33.3	50.0	71.4	75.0	50.0	94.4	100.0	66.1
Angloplat	55.6	50.0	92.9	75.0	50.0	44.4	100.0	65.2
Iscor	22.2	40.0	85.7	62.5	66.7	88.9	100.0	64.9
Aflife	33.3	60.0	78.6	71.4	66.7	77.8	66.7	64.8
Anglo American	44.4	70.0	42.9	62.5	50.0	94.4	100.0	64.6
Johnnic	66.7	50.0	78.6	62.5	50.0	77.8	66.7	64.5
Johncom	66.7	50.0	78.6	62.5	50.0	77.8	66.7	64.5
Naspers	55.6	50.0	71.4	75.0	66.7	66.7	66.7	64.5
MHH	55.6	50.0	71.4	75.0	66.7	66.7	66.7	64.5
Anglovaal Mining	55.6	70.0	50.0	75.0	66.7	38.9	100.0	63.4
Metlife	66.7	50.0	78.6	50.0	50.0	77.8	66.7	62.6
Comparex	55.6	60.0	14.3	62.5	50.0	88.9	66.7	56.4
Sasol	66.7	60.0	57.1	0.0	66.7	77.8	50.0	54.2
Capital	55.6	50.0	21.4	21.4	66.7	77.8	66.7	50.6
Datatec	66.7	40.0	14.3	62.5	33.3	38.9	66.7	45.0

Source: CLSA Emerging Markets

Turkey companies sorted by CG

Company name	Discipline 15%	Transp. 15%	Indep. 15%	A/cability 15%	Resp. 15%	Fairness 15%	Social 10%	Wgtd avg 100%
Koc Holding	77.8	40.0	71.4	62.5	66.7	22.2	83.3	59.4
AEFES	66.7	70.0	21.4	50.0	83.3	44.4	83.3	58.7
Garanti	44.4	90.0	21.4	50.0	50.0	83.3	50.0	55.9
Arcelik	33.3	70.0	71.4	62.5	50.0	16.7	83.3	53.9
Akenerji	66.7	40.0	64.3	0.0	50.0	72.2	66.7	50.6
Akbank	33.3	80.0	21.4	50.0	33.3	72.2	50.0	48.5
Turkcell	88.9	30.0	28.6	37.5	66.7	27.8	50.0	46.9
Yapi Kredi Bank	33.3	80.0	21.4	50.0	16.7	27.8	50.0	39.4
AYGAZ	66.7	50.0	21.4	12.5	33.3	16.7	83.3	38.4
Isbank	11.1	40.0	28.6	50.0	16.7	72.2	50.0	37.8
Hurriyet	55.6	20.0	28.6	25.0	16.7	72.2	50.0	37.7
TUPRAS	44.4	60.0	21.4	12.5	33.3	16.7	83.3	36.6
PETKIM	55.6	60.0	21.4	12.5	33.3	16.7	66.7	36.6
POAS	66.7	50.0	0.0	12.5	16.7	22.2	100.0	35.2
ERDEMIR	55.6	60.0	14.3	12.5	16.7	16.7	83.3	34.7
Dogan Yayin Holding	22.2	20.0	28.6	25.0	16.7	72.2	33.3	31.0
Vestel	33.3	40.0	21.4	12.5	16.7	16.7	83.3	29.4

Source: CLSA Emerging Markets

EE companies sorted by CG

Company name	Discipline 15%	Transp. 15%	Indep. 15%	A/cability 15%	Resp. 15%	Fairness 15%	Social 10%	Wgtd avg 100%
Alpha Credit Bank	44.4	50.0	85.7	75.0	83.3	33.3	50.0	60.8
Matav	88.9	70.0	21.4	100.0	66.7	22.2	50.0	60.4
National Bank of Greece	55.6	50.0	78.6	50.0	50.0	38.9	50.0	53.5
Czech Telecom	77.8	60.0	78.6	87.5	33.3	5.6	0.0	51.4
MOL	22.2	60.0	57.1	12.5	66.7	72.2	16.7	45.3
PKN	44.4	20.0	57.1	12.5	33.3	66.7	33.3	38.4
TPSA	11.1	20.0	78.6	100.0	16.7	0.0	0.0	34.0
Lukoil	22.2	0.0	7.1	12.5	33.3	16.7	16.7	15.4

Source: CLSA Emerging Markets

Patterns in the scores – EEMEA

	Question	"Yes" score in country sample (%)	Comments
1	Explicit public statement placing a priority on CG	SA: 90.0% Turkey: 47.1% EE: 62.5%	South Africa: Virtually all SA companies have made CG a priority of management. Turkey: Not specifically but in a few cases.
2	Management incentivised towards a higher share price	SA: 25.0% Turkey: 47.1% EE: 25.0%	South Africa: A very low percentage of management (25%) is highly incentivised through significant share options, ie more than 54% of annual package is in the form of share-price performance. Turkey: Major shareholders still hold more than 51% of shares in vast majority of Turkish companies.
3	Sticking to clearly defined core businesses	SA: 75.0% Turkey: 76.5% EE: 62.5%	South Africa: Over the past 4 years companies have increased their focus on their core businesses and have sold or distributed non-core assets. Turkey: Except for conglomerates, companies tend to stick to their core businesses.
4	Having an appropriate estimate of cost of equity	SA: 77.5% Turkey: 52.9% EE: 37.5%	South Africa: Management had a good feel for their cost of equity. 77.5% of management's estimates were within 10% of our estimates. Turkey: Management's estimate of cost of capital is lower than CAPM derived, but that may be due to the latest upswing in the Turkish risk-free rate, a result of financial crisis.
5	Having an appropriate estimate of cost of capital	SA: 77.5% Turkey: 41.2% EE: 75.0%	South Africa: As in the case of cost of equity, management had a good handle on their WACC and in excess of 75% of companies management polled estimates were in line with our own. Turkey: Management generally think cost of capital is substantially lower than what we estimate.
6	Conservatism in issuance of equity or dilutive instruments	SA: 45.0% Turkey: 52.9% EE: 62.5%	South Africa: Most companies have issued equity or warrants for financing of acquisitions/projects in a way that raised controversy. Turkey: Issuing equity at par value which forces shareholders to subscribe is a bad but common habit of Turkish companies.
7	Ensuring debt is manageable, used only for projects with adequate returns	SA: 52.5% Turkey: 64.7% EE: 37.5%	South Africa: Use of debt has been reasonably prudent in SA apart from a handful of companies that have risen their debt to unsustainable levels, eg Sappi, Metcash. Turkey: Because of the crowding-out effect of the government, Turkish companies have limited access to credit and capital markets.
8	Returning excess cash to shareholders	SA: 30.0% Turkey: 64.7% EE: 25.0%	South Africa: About a third of SA companies have allowed retained earnings to push down ROE because of the low yield on cash. This has become particularly acute as rates on deposits have fallen to below 11.5% from in excess of 17% during the financial crisis. Turkey: Cash is king in Turkey and companies get high real returns on their cash (at least used to).
9	Discussion in Annual Report on corporate governance	SA: 70.0% Turkey: 5.9% EE: 25.0%	Almost 70% of the SA companies do have a section in the annual report devoted to CG. Turkey: Not a common practice.
10	Disclosure of financial targets, eg 3-5 year ROA/ROE	SA: 0.0% Turkey: 11.8% EE: 37.5%	Not a single company polled disclosed three- and five-year ROA and ROE targets. Turkey: Scores better than SA, nevertheless the ratio is very low.
11	Timely release of Annual Report	SA: 100.0% Turkey: 58.5% EE: 62.5%	Regulations require SA companies to publish annual financial statements within 3 months of their financial year-end or face suspension. Turkey: Annual reports are published within 4 months but inflation accounts take longer than that.
12	Timely release of semi-annual financial announcements	SA: 100.0% Turkey: 76.5% EE: 62.5%	South Africa: 100% of companies polled publish and announce half-year results within 2 months of the accounting period. Turkey: It is the law, but publishing IAS inflation-adjusted reports take more than 2 months.

Continued next page

Patterns in the scores – EEMEA (continued)

Question	"Yes" score in country sample (%)	Comments
13 Timely release of quarterly results	SA: 7.5% Turkey: 76.5% EE: 62.5%	South Africa: With exception of the gold mines, none of the polled companies published quarterly results. Turkey: It is the law, but only with Turkish accounting standards, which are not adjusted for inflation.
14 Prompt disclosure of results with no leakage ahead of announcement	SA: 65.0% Turkey: 29.4% EE: 25.0%	South Africa: Most companies announce their results within 2 working days of the board meeting to confirm results. In some cases however share prices move ahead of the actual results announcement - the same in Turkey.
15 Clear and informative results disclosure	SA: 55.0% Turkey: 47.1% EE: 37.5%	South Africa: Disclosure has increased significantly since the acceptance of the King Report in 1996. Turkey: Disclosure is improving but not yet sufficient.
16 Accounts presented according to IGAAP	SA: 55.0% Turkey: 70.6% EE: 50.0%	South Africa: Only 55% of companies employ IGAAP. Turkey: Only large companies present their accounts according to IGAAP.
17 Prompt disclosure of market sensitive information	SA: 50.0% Turkey: 41.2% EE: 12.5%	South Africa: In general, disclosure has improved, but is still below expectations with only half of companies consistently disclosing sensitive information punctually. SA has seen a number of insider-trading investigations launched over the past 18 months, particular against smaller IT companies.
18 Accessibility of investors to senior management	SA: 62.5% Turkey: 64.7% EE: 50.0%	South Africa: Slightly more than half the SA companies provide investors and analysts with good access to management. Turkey: Access to management is continously improving; most analysts do not have many complaints.
19 Web-site where announcements updated promptly	SA: 97.5% Turkey: 52.9% EE: 12.5%	South Africa: 97.5% of all companies polled have a English web-site. Those that do not have no web-site at all. Turkey: Most have an English web-site, but mostly for marketing purposes, not for investor relations.
20 Board and senior management treatment of shareholders	SA: 65.0% Turkey: 17.6% EE: 75.0%	South Africa: The record for making decisions at the expense of minorities is not impressive with notable transgressions in recent years. The score would be lower with a wider sample as many share-option schemes have been bought back, re-issued at lower prices with the loan against the cancelled scheme written off. Turkey: Low score reflects minorities are not always looked after as well as they should be.
21 Chairman who is independent from management	SA: 47.5% Turkey: 23.5% EE: 50.0%	South Africa: The record of senior management in seeking to ensure that market value reflects fundamentals is patchy. Turkey: Chairman may be non-executive, but not really independent.
22 Executive decisions by management committee comprised differently from Board	SA: 67.5% Turkey: 23.5% EE: 12.5%	South Africa: In 67.5% of the companies, there is a substantial difference between the management committee and the Board. Turkey scores are much lower.
23 Audit committee chaired by independent director	SA: 85.0% Turkey: 64.7% EE: 62.5%	South Africa: Most companies have an audit committee chaired by an independent director. Turkey: The same.
24 Remuneration committee chaired by independent director	SA: 70.0% Turkey: 0.0% EE: 12.5%	South Africa: 70% of companies have independent remuneration committee. Turkey: No remuneration committees.
25 Nominating committee chaired by independent director	SA: 30.0% Turkey: 0.0% EE: 37.5%	South Africa: Only 30% of companies polled have a nominating committee. Turkey: None.
26 External auditors unrelated to the company	SA: 92.5% Turkey: 94.1% EE: 62.5%	South Africa: In 92.5% of cases, we know that the auditors are independent of the company. Turkey: In a vast majority of companies, external auditors are unrelated.

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Patterns in the scores – EEMEA (continued)

	Question	"Yes" score in country sample (%)	Comments
27	No representatives of banks or other large creditors on the Board	SA: 65.0% Turkey: 88.2% EE: 50.0%	South Africa: 35% of SA companies polled have board representation from their lead bankers. Turkey: No reps from banks or creditors in most cases.
28	Board plays a supervisory rather than executive role	SA: 70.0% Turkey: 58.8% EE: 62.5%	South Africa: In more than 70% of companies polled, the board is substantially different from key management personnel. However, in Turkey this holds for only about half of the companies.
29	Non-executive directors demonstrably independent	SA: 40.0% Turkey: 17.6% EE: 50.0%	South Africa: In very few cases are independent directors demonstrably independent. Turkey: The low score indicates independence is an issue.
30	Independent, non-executive directors at least half of the Board	SA: 55.0% Turkey: 5.9% EE: 50.0%	South Africa: In 55% of SA companies, more than half the board are independent directors. Turkey: Independence of board is an issue.
31	Foreign nationals presence on the Board	SA: 50.0% Turkey: 17.6% EE: 25.0%	South Africa: Half the companies have foreign nationals represented on the board. Turkey: Except few select companies no.
32	Full Board meetings at least every quarter	SA: 92.5% Turkey: 94.1% EE: 100.0%	South Africa & Turkey: Most companies hold quarterly board meetings.
33	Board members able to exercise effective scrutiny	SA: 52.5% Turkey: 35.3% EE: 62.5%	Getting independent verification from independent directors was an obstacle. Of those polled, only 52.5% in SA were well briefed before board meetings, and about 1/3 in Turkey.
34	Audit committee that nominates and reviews work of external auditors	SA: 90.0% Turkey: 0.0% EE: 37.5%	South Africa: In 90% of cases, the audit committee does review and supervise the work of external auditors.
35	Audit committee that supervises internal audit and accounting procedures	SA: 87.5% Turkey: 23.5% EE: 62.5%	
36	Acting effectively against individuals who have transgressed	SA: 95.0% Turkey: 58.8% EE: 75.0%	South Africa has a better record of taking action against management for misdeeds.
37	Record on taking measures in cases of mismanagement	SA: 65.0% Turkey: 29.4% EE: 12.5%	South Africa: About 2/3s are seen to have mechanisms to take effective measures in the event of mismanagement. Turkey: Because proof is not seen, the ratio is low.
38	Measures to protect minority interests	SA: 75.0% Turkey: 17.6% EE: 75.0%	South Africa: Only about 75% of companies have a demonstrable record of protecting all shareholders. Turkey: Hardly.
39	Mechanisms to allow punishment of executive/management committee	SA: 65.0% Turkey: 11.8% EE: 12.5%	South Africa: 65% of companies believe they have the mechanism to punish management for transgressions. Turkey: Only in very few companies.
40	Share trading by board members fair and fully transparent	SA: 85.0% Turkey: 41.2% EE: 50.0%	South Africa: Insider trading is usually transparent, in most cases management is prohibited to trade in company shares for the entire "close out period". All other dealing in company shares or any of its subsidiaries is documented and scrutinised. However, investigations have been launched against Datatec, Metcash, MGX. Turkey: The score card is mixed, but insider trading habits persist.
41	Board small enough to be efficient and effective	SA: 50.0% Turkey: 58.8% EE: 62.5%	South Africa: The board sizes in our sample ranged from 5-15, with an average board size of 9.4. Turkey: Average board size is around 8.
42	Majority shareholders treatment of minority shareholders	SA: 90.0% Turkey: 35.3% EE: 25.0%	South Africa: Decisions are sometimes seen to be made at the expense of minorities. Turkey: Minority shareholders tend to suffer.

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Patterns in the scores – EEMEA (continued)

	Question	"Yes" score in country sample (%)	Comments
43	All equity holders having right to call General Meetings	SA: 62.5% Turkey: 47.1% EE: 37.5%	South Africa: Of SA companies in our universe only 62.5% provide access to general management to all equity holders. Turkey: Less than half.
44	Voting methods easily accessible (eg through proxy voting)	SA: 97.5% Turkey: 52.9% EE: 25.0%	South Africa: Yes. Turkey: In only about half the cases.
45	Quality of information provided for General Meetings	SA: 85.0% Turkey: 35.3% EE: 12.5%	South Africa: In very few cases information is made available to shareholders prior to AGM. Turkey: Not often.
46	Guiding market expectations on fundamentals	SA: 60.0% Turkey: 70.6% EE: 25.0%	The record of senior management in seeking to ensure that the market value reflects fundamentals is patchy. Turkey: Managements are usually frank in their assessment and interest in market price reflecting the fair value.
47	Issuance of ADRs or placement of shares fair to all shareholders	SA: 67.5% Turkey: 35.3% EE: 62.5%	33% of the SA companies have issued depositary receipts. Turkey: Issuing new shares at nominal value - leaves no option to shareholders but to subscribe.
48	Controlling shareholder group owning less than 40% of company	SA: 55.0% Turkey: 11.8% EE: 62.5%	In most cases, the major shareholder owns more than 40% of the company. Turkey: Major shareholder usually owns more than 40%.
49	Portfolio investors owning at least 20% of voting shares	SA: 67.5% Turkey: 47.1% EE: 37.5%	Local institutions who are large shareholders of our universe of companies have little experience in investing in emerging markets outside SA and have in the past paid little attention to CG. Turkey: For half of our coverage, yes.
50	Priority given to investor relations	SA: 95.0% Turkey: 64.7% EE: 62.5%	In most cases, investor relations is given quite high priority - usually because the major shareholder has an interest in high value for the stock.
51	Total Board remuneration rising no faster than net profits	SA: 62.5% Turkey: 47.1% EE: 25.0%	In 33% of companies polled, the remuneration of the board has increased at an rate greater than EPS. Turkey: In about half the cases.
52	Explicit policy emphasising strict ethical behaviour	SA: 82.5% Turkey: 5.9% EE: 12.5%	Nearly 83% of companies have a public statement emphasising ethical behaviour. Turkey: Practically none.
53	Not employing the under-aged	SA: 70.0% Turkey: 76.5% EE: 0.0%	About 3/4 of companies under our coverage here have a culture/policy of not employing the under-aged.
54	Explicit equal employment policy	SA: 95.0% Turkey: 100.0% EE: 37.5%	95% of SA companies polled have an official policy of equal employment and seek to advance previously dis-advantaged communities. All companies are forced to implement the Employment Equity Bill. Companies who fail to do so or transgress the bill face harsh penalties and fines. Turkey: 100%.
55	Adherence to specified industry guidelines on sourcing of materials	SA: 95.0% Turkey: 94.1% EE: 25.0%	Most companies adhere to industry guidelines on sourcing materials with those that do not merely transgress minor, little-publicised matters.
56	Explicit policy on environmental responsibility	SA: 57.5% Turkey: 47.1% EE: 25.0%	Only about half the companies are explicitly environmentally conscious.
57	Abstaining from countries where leaders lack legitimacy (Myanmar)	SA: 100.0% Turkey: 82.4% EE: 91.2%	No SA company and most from Turkey have no investments in Myanmar.

Source: CLSA Emerging Markets

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Latin America – Patchy progress

High CG BUYs/Low CG SELLs

Company	CG Score (%)	Re-rating drivers
High CG BUYS		
Ambev	74.6	The company is gaining market share and reaping the benefits of its acquisition of Antarctica. BUY.
Cemex	74.0	More profitable than its peers, less expensive and surprisingly less volatile. BUY.
Modelo	71.8	Enjoying market-share gains at the expense of Femsa; it just keeps on delivering. BUY.
Embraer	71.0	Among the most exciting stories in Latin America; now a major player in the regional jet market, yet valued like a local play. BUY.
Low CG SELLs		
Globo Cabo	76.5	Expensive stock given competitive threats from fixed-line companies in cable business, and uncertainties of whether pricing strategy will sacrifice profitability. SELL
America Movil	66.7	Expensive by regional and global emerging market standards with substantial capex ahead of it as it migrates its analogue network to digital. SELL.
Telmex	62.4	The company faces an increasingly competitive market for fixed-line business, and significant regulatory risk. The growth just isn't there. SELL.

Source: CLSA Emerging Markets

Recent CG developments

Country ratings for macro determinants of CG

Ratings (1-10)	Chile	Mexico	Argentina	Brazil
Rules and regulations	8	6	7	6
Enforcement and regulation	6	5	5	3
Political/regulatory environment (ie, interference)	7	6	5	4
Adoption of IGAAP	7	8	6	7
Institutional mechanisms and CG culture	6	6	4	5

Source: CLSA Emerging Markets

Fair disclosure regulations impacting companies with ADRs

US security regulations on fair disclosure that were implemented last year stand as the most important CG change for Latin American companies with ADRs. Under the new guidelines, companies are no longer permitted to selectively disclose information to analysts or fund managers, a practice once very common. Latin American companies are still adapting to this change; while there have been no cited violations so far, investors should expect them once the US authorities train their eyes on the issue. Ultimately, however, this should prove very positive for minority shareholders. While information may be more difficult to get, the playing field will be made more level.

Brazil regulators require two-thirds shareholder approval for acquisitions

Brazil: Brazil advanced light years in 2000 with respect to CG. The Comissao de Valores Mobiliarios (CVM), which is the equivalent of a SEC, took a major step to protect minority investors. It enacted rule 345, which requires that an acquisition must be approved by two-thirds of shareholders, thus providing minorities with bargaining power to avoid liquidity corners. The rule itself is not as important as the spirit in which the CVM is acting. The securities regulator is looking out for minority interests, which in itself is a milestone.

Delays in effecting new corporate law

Even more positively (and surprisingly), in late-March the lower house passed the new Corporate Law bill, which although slightly watered down from the original version should be the key driver of improved CG. The bill has three major elements to it:

1) Tag-along rights for minority shareholders of voting shares, providing protection when controlling stakes are transferred
2) Establishment of objective criteria for determining the price paid to minorities in company buyouts
3) Board representation for minorities.

The bill should be passed easily by the Senate over the next four to five weeks. The bill would come into force six months after passage.

New law granting minorities same rights in a tender offer, but only likely to come into effect December 2003

Chile: Chilean regulation is currently undergoing important changes in CG laws. Late last year, the OPA law (public tender offer) was approved. In summary, it forces a potential buyer to grant equal conditions to all shareholders. The main target of the new OPA law is to protect minority shareholders in terms of granting them the same rights and benefits in case a tender offer is launched for a company. In essence, a tender offer process is mandatory whenever direct or indirect control of a listed company is acquired. The downside for this law is that in reality it will not be enforced until December 2003. Until then, existing controllers will become fully exempt from these offer rules upon simple majority shareholder approval; the scope for unfair treatment of minorities remains wide.

No major changes in Mexico

Mexico: There have been no major changes to CG regulations over the past 15 months, and regulatory authorities indicate their near-term agenda remains largely free of pending issues as well.

Best and worst in recent CG events

Enersis's tender offers ignore minority interests

The most contentious CG issue in Chile over the past year was during Enersis' tender offers for subsidiaries Chilectra and Rio Maipo. In both cases, minority shareholders complained that the terms offered to the majority shareholder (Spain's Endesa) were more favourable than they received. Enersis used the threat of substantially diminished future liquidity to encourage dissatisfied shareholders to tender their shares.

Quinenco avoids competition conflict

More positively in Chile, Quinenco, which controls CCU, swiftly resolved a potential conflict when one of its European investors established a business agreement with Heineken. Heineken holds a major stake in Quilmes in Argentina, which is CCU's second most important market. Initially, some minority shareholders worried that Quinenco would benefit from the arrangement, while minority shareholders in CCU would see the latter's business deteriorate.

Controlling shareholder dispute at Brasil Telecom

Brasil Telecom is subject to a long running feud between its controlling shareholders, Telecom Italia and private equity fund Opportunity. The public bickering, back stabbing, name-calling and conflicts of interest have created a most uncertain future for the company and minority shareholders. The lack of discipline, fairness and independence is evident in the fact that the company did not bid for a PCS license even for its own fixed line concession area. The acquisition of CRT took a year longer than anticipated and the company's operating unit Telepar has ADR listing aspirations. The sad thing is that the controllers own 51% of the ON shares but only 20% of total equity.

Conflicts of shareholder interests in Telemar

Telemar, the benchmark stock in Brazil, is subject to substantial conflict-of-interest risk among its controlling shareholders. There have been surprise share dividends, which coincided with payment dates for the purchase financing of the company at privatisation. Telemar has acquired internet company IG and data business Pegasus at high valuations with circumspect benefits to the company. These companies where owned by the some of the same controlling shareholders of Telemar. In a twist of fate the largest shareholder is the national development bank BNDES, but it does not exercise control. So Telemar was privatised, its largest single shareholder is a state agency, but it is as exposed to the whims of this core investor group (that controls Telemar with 15% of equity) as minority investors.

More disappointments among Salinas group companies

The Salinas group of companies has long been plagued by CG problems. Positively, TV Azteca, the group's most important company, has recently vowed to make good CG a top priority. Unfortunately, this comes too late to support minority shareholders in Elektra, the Salinas group's electronics retailer, which sold the company's stake in TV Azteca to a private investment company of the Salinas family at what minority shareholders believed was an overly generous price. More recently, Azteca executives implied that group companies continue to get preferred TV advertising deals from Mexico's second-largest media company – at the expense of Azteca shareholders.

Companies with CG upside potential

Company	CG Score (%)	Events that could change CG score
Telemar	46.4	❑ Eventual partnership with an international player could reduce conflicts of interest between controlling and minority shareholders. ❑ Restructuring of subsidiaries could enhance the transparency of financial statements. ❑ With the end of the PCS auctions, and following the acquisition of IG and Pegasus, investment discipline will most likely increase.
Brasil Telecom	45.4	❑ Conflicts between controlling shareholders should dissipate at some point in the future. ❑ Full consolidation with CRT leads to a more transparent structure.
Embratel	55.4	❑ Strong investment discipline (seen during the PCS auction) should rule Embratel's expansions into other LatAm countries.
Telmex	62.4	❑ Transparency will most likely increase following the spin off. ❑ Continuous buy-out offerings may create value to shareholders.
Cemex	74.0	❑ Increasing one-on-one contact with institutional investor base through direct visits. ❑ Greater importance is put on transparency of corporate ownership structure. ❑ Expect company to maintain discipline by repaying debt before undertaking new acquisitions.
America Movil	63.9	❑ Financial disclosure of subsidiaries expected. This would increase score to 65.4%.
Itau	67.8	❑ Transparency should improve further with the listing of an ADR Level II, expected by June 2001.

Source: CLSA Emerging Markets

Companies with CG downside risk

Company	CG Score (%)	Events that could change CG score
Unibanco	54.4	❑ Transparency has reduced despite deterioration in earnings and strategy visibility.
CTC	46.7	❑ Potential take-over by Telefonica may deteriorate company's fairness as we expect institutional investors to be bought out.

Source: CLSA Emerging Markets

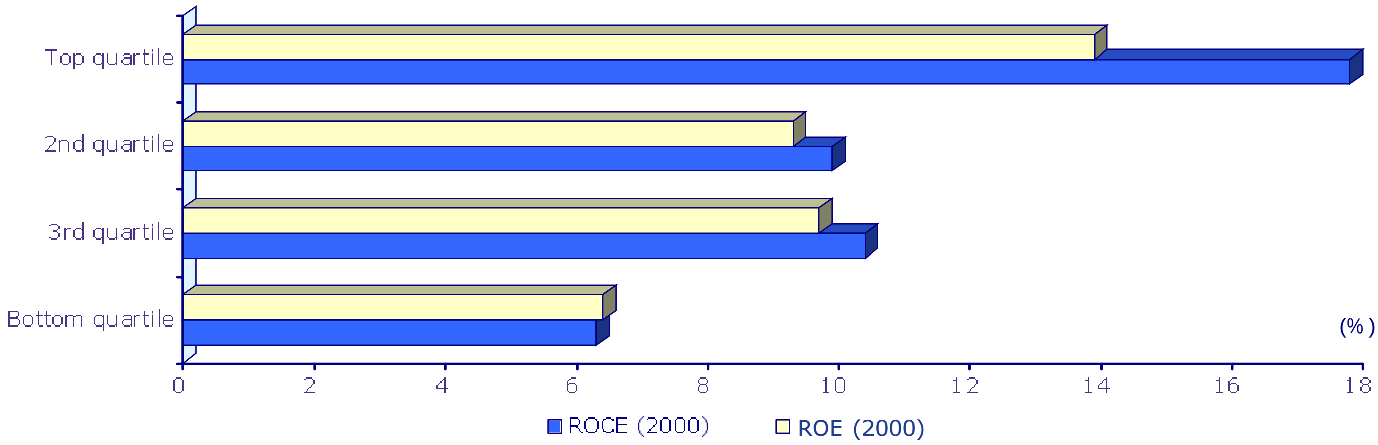
CG and financial performance

CG to ROCE, ROE and EVA™ for Latin America sample

	Quartile CG ranking			
	Top	Second	Third	Bottom
ROCE (%)	17.8	9.9	10.4	6.3
ROE (%)	13.9	9.3	9.7	6.4
EVA™/IC (%)	(4.4)	(6.8)	(6.2)	(9.3)

Source: CLSA Emerging Markets

CG rankings to ROCE and ROE



Source: CLSA Emerging Markets

- Our CG rankings and profitability measures/emphasis correlations are virtually perfect – the highest rated companies were far and away the most profitable.
- Interestingly, the gap between the first and second quartiles was quite significant, as was the gap between the third and fourth quartiles, while the gap between the second and third was comparatively narrower. Companies with good CG and those with poor CG are more easily distinguishable.

CG and valuations

CG to EV/Ebitda, PE and PB for Latin America sample

	Quartile CG ranking			
	Top	Second	Third	Bottom
EV/Ebitda	7.0	7.0	6.1	4.8
PE (x)	16.4	18.9	11.7	44.8
PB (x)	3.0	2.2	1.6	0.8

Source: CLSA Emerging Markets

- Based on our sample, the market clearly pays for better CG; the market paid a 16% premium in terms of EV/Ebitda for top- and second-rated companies over the third quartile peers and a slightly smaller premium on a PB basis.
- Save for our EV/Ebitda valuations in rankings first and second, the correlation between CG and valuations also appears quite strong.
- The market discounts the ability of poorly-rated CG companies to effectively utilise their assets (equity), paying much more for cashflow generation than equity capital compared to better-rated companies. Relating the valuation and profitability tables, as poorer rated companies generated lower returns on invested capital, investors impose a valuation discount upon them.

CG and share-price performance

- The correlation between CG scores and share-price performance also seems to hold reasonably well, with the best-rated companies seeing share-price gains of 11% over the past year, while the worst suffered a loss of 14%. The anomaly is the second quartile companies, which suffered the biggest losses, but this is largely because many of the telecom companies were in this quartile.

CG rankings and one-, three- and five-year share-price performance to end-2000

	Quartile CG ranking				Average of
	Top	Second	Third	Bottom	Country basket
1-year share-price performance	11.4	(16.2)	(6.4)	(14.4)	(18.0)
3-year share-price performance	212.1	23.2	28.4	9.3	57.2
5-year share-price performance	327.9	125.9	81.8	100.0	(10.3)

Source: CLSA Emerging Markets

Latin America companies sorted by CG

Company name	Discipline 15%	Transp. 15%	Indep. 15%	A/cability 15%	Resp. 15%	Fairness 15%	Social 10%	Wgtd avg 100%
Globo Cabo	88.9	100.0	71.4	50.0	66.7	77.8	83.3	76.5
Buenaventura	77.8	90.0	78.6	62.5	66.7	83.3	66.7	75.5
Ambev	77.8	80.0	35.7	87.5	66.7	83.3	100.0	74.6
Cemex	66.7	70.0	78.6	50.0	66.7	94.4	100.0	74.0
Modelo	77.8	90.0	35.7	75.0	50.0	83.3	100.0	71.8
Antofagasta	55.6	90.0	78.6	62.5	66.7	77.8	66.7	71.3
Embraer	88.9	100.0	78.6	50.0	66.7	33.3	83.3	71.0
Femsa	77.8	90.0	35.7	62.5	50.0	83.3	100.0	69.9
Eletropaulo	55.6	80.0	35.7	87.5	83.3	72.2	66.7	68.8
Tele Nordeste	77.8	100.0	64.3	50.0	66.7	33.3	100.0	68.8
CCU	55.6	90.0	71.4	50.0	83.3	83.3	33.3	68.4
Andina	44.4	90.0	71.4	37.5	83.3	83.3	66.7	68.2

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Latin America companies sorted by CG (continued)

Company name	Discipline 15%	Transp. 15%	Indep. 15%	A/cability 15%	Resp. 15%	Fairness 15%	Social 10%	Wgtd avg 100%
Aracruz	66.7	90.0	42.9	87.5	83.3	38.9	66.7	68.1
Telemig Cel	77.8	100.0	64.3	50.0	66.7	38.9	83.3	68.0
Banco Itaú	77.8	80.0	85.7	75.0	50.0	27.8	83.3	67.8
Tele Centro Oeste	66.7	70.0	64.3	50.0	66.7	77.8	83.3	67.6
LanChile	44.4	90.0	71.4	37.5	83.3	88.9	50.0	67.3
Tele Norte Cel	77.8	100.0	64.3	50.0	66.7	33.3	83.3	67.1
Iusacell	77.8	100.0	64.3	50.0	66.7	33.3	83.3	67.1
Copel	11.1	80.0	85.7	75.0	66.7	61.1	100.0	66.9
Telecom Argentina	66.7	70.0	78.6	62.5	50.0	72.2	66.7	66.7
Tele Cel Sul	66.7	100.0	64.3	50.0	66.7	27.8	100.0	66.3
Usiminas	33.3	90.0	28.6	87.5	83.3	72.2	66.7	65.9
Viña Concha y Toro	44.4	90.0	71.4	37.5	83.3	77.8	50.0	65.7
Telesp Celular	66.7	90.0	64.3	50.0	66.7	33.3	100.0	65.6
DYS	55.6	90.0	64.3	25.0	83.3	83.3	50.0	65.2
Tele Sudeste	66.7	80.0	64.3	50.0	50.0	66.7	83.3	65.0
America Movil	66.7	90.0	64.3	50.0	66.7	33.3	83.3	64.0
Telmex	55.6	60.0	71.4	62.5	50.0	72.2	66.7	62.4
VCP	55.6	80.0	42.9	75.0	83.3	33.3	66.7	62.2
Tele Leste Cel	66.7	80.0	64.3	50.0	66.7	27.8	83.3	61.6
Light	55.6	80.0	35.7	87.5	83.3	22.2	66.7	61.3
Copec	77.8	50.0	85.7	50.0	33.3	66.7	66.7	61.2
Endesa	55.6	90.0	35.7	37.5	66.7	88.9	50.0	61.1
Gerdau	55.6	80.0	35.7	75.0	83.3	33.3	66.7	61.1
Empresas CMPC	66.7	60.0	85.7	50.0	33.3	66.7	66.7	61.0
Soquimich	55.6	70.0	71.4	37.5	50.0	88.9	50.0	61.0
Entel	22.2	60.0	71.4	62.5	83.3	83.3	33.3	60.8
Sabesp	22.2	50.0	85.7	62.5	66.7	61.1	83.3	60.6
Labchile	66.7	70.0	71.4	50.0	66.7	38.9	50.0	59.5
Enersis	44.4	90.0	35.7	37.5	66.7	88.9	50.0	59.5
Falabella	55.6	50.0	64.3	37.5	83.3	72.2	50.0	59.4
CSN	33.3	80.0	42.9	75.0	83.3	27.8	66.7	58.0
Bavaria	55.6	50.0	35.7	50.0	50.0	77.8	100.0	57.9
Almacenes Paris	55.6	50.0	64.3	25.0	83.3	72.2	50.0	57.6
CST	33.3	70.0	42.9	87.5	66.7	33.3	66.7	56.7
Embratel	66.7	60.0	85.7	62.5	33.3	16.7	66.7	55.4
Cemig	33.3	90.0	28.6	75.0	50.0	22.2	100.0	54.9
Unibanco	33.3	80.0	85.7	75.0	16.7	16.7	83.3	54.4
Banacci	33.3	70.0	78.6	75.0	33.3	16.7	83.3	54.4
Bancomer	33.3	70.0	78.6	75.0	16.7	16.7	83.3	51.9
Eletrobras	22.2	50.0	35.7	62.5	33.3	66.7	100.0	50.6
Celesc	22.2	60.0	35.7	50.0	33.3	66.7	100.0	50.2
Klabin	22.2	70.0	42.9	75.0	50.0	22.2	66.7	49.0
CTC	33.3	80.0	35.7	62.5	50.0	27.8	33.3	46.7
Telemar	22.2	60.0	71.4	50.0	33.3	27.8	66.7	46.4
Brasil Telecom	33.3	90.0	64.3	37.5	16.7	16.7	66.7	45.4

Source: CLSA Emerging Markets

Patterns in the scores – Latin America

	Question	"Yes" score in in country sample (%)	Comments
1	Explicit public statement placing a priority on CG	32.8%	About one third of LatAm companies issued a mission statement, Chile being the leading country with 46.7% of LatAm companies surveyed. Copec, the Chilean company with largest market cap, has a mission statement.
2	Management incentivised towards a higher share price	39.7%	53.3% of Chilean companies qualify here. Brazil has the smallest impact, but Ambev and Embraer management do create an incentive towards a higher share price.
3	Sticking to clearly defined core businesses	82.8%	100% of Mexican companies were in this field, followed by Chile (93.3%).
4	Having an appropriate estimate of cost of equity	39.7%	For Mexico the estimate ranges from 10-15% and 75% of management estimates are in line with ours. Brazil obtained second place with 46.7%.
5	Having an appropriate estimate of cost of capital	39.7%	About 40% of LatAm companies provided an estimate of WACC that was close to CLSA's estimate.
6	Conservatism in issuance of equity or dilutive instruments	69.0%	Chile was the leader in this decision-making arena, though Brazil with the most weight overall in LatAm came in a close second with 70%.
7	Ensuring debt is manageable, used only for projects with adequate returns	74.1%	Use of debt has been better than average across the region.
8	Returning excess cash to shareholders	82.8%	About 1/5 of LatAm companies have allowed retained earnings to bring down ROE.
9	Discussion in Annual Report on corporate governance	25.9%	Most LatAm companies do not include this section: for Mexico, only 12.5% of companies and 30% in Brazilian companies do include it. 30% is the highest result.
10	Disclosure of financial targets, eg 3-5 year ROA/ROE	25.9%	Few LatAm companies provide 3- or 5-year finacial targets. 50% of Mexican companies and 33.3% of Brazilian companies provide targets - Mexico's largest company Telmex do not disclose it.
11	Timely release of Annual Report	100.0%	Companies publish annual results within four months all across the region.
12	Timely release of semi-annual financial announcements	100.0%	100% of LatAm companies qualify in this area.
13	Timely release of quarterly results	98.3%	In very few occations do companies take longer.
14	Prompt disclosure of results with no leakage ahead of announcement	93.1%	Most companies announce results within 2 working days of Board meeting to confirm results. 87.5% of Mexican companies report in 2 days - the smallest % among LatAm countries. Femsa and Modelo have taken up to 45 days.
15	Clear and informative results disclosure	72.4%	Mexico provides the least clear reports. Brazil scored the highest, with 76.7%.

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Patterns in the scores – Latin America (continued)

	Question	"Yes" score in in country sample (%)	Comments
16	Accounts presented according to IGAAP	79.3%	Most company results are presented consistent with IGAAP, with the exception of Chile where only 66.7% are presented according to IGAAP.
17	Prompt disclosure of market sensitive information	62.1%	Relevant information is not always disclosed promptly - mostly in Mexico.
18	Accessibility of investors to senior management	67.2%	2/3 of LatAm companies provide good access to senior management. In Chile, only 60% of companies provide access.
19	Web-site where announcements updated promptly	84.5%	100% of Mexican companies and 73% of Chilean companies provide this service.
20	Board and senior management treatment of shareholders	67.2%	1/3 of companies in Mexico and Brazil have made decisions that benefit senior management at the expence of shareholders. Modelo and Femsa are among those companies.
21	Chairman who is independent from management	31.0%	Chairman is not an independent director in 2/3 of companies in our sample.
22	Executive decisions by management committee comprised differently from Board	58.6%	In less than half of the cases there is substantial difference between management committee and the board.
23	Audit committee chaired by independent director	56.9%	In Brazil & Mexico, more than half the companies have an independent audit committee, while in Chile it is only 33%.
24	Remuneration committee chaired by independent director	19.0%	Less than 1/5 of companies in the sample have a remuneration committee.
25	Nominating committee chaired by independent director	32.8%	More than half of Brazilian companies have a nominating committee, although Ambev and most of the telecom sector do not. Mexico has 12.5% - well below the 56% from Brazil.
26	External auditors unrelated to the company	100.0%	In all cases that we know of, the auditors are independent of the company.
27	No representatives of banks or other large creditors on the Board	89.7%	Mexico is has the largest number of creditors in the companies bords. About 25% of this companies have creditors as board-members.
28	Board plays a supervisory rather than executive role	67.2%	In more than half the cases the Board is not substantially different from the key management personnel.
29	Non-executive directors demonstrably independent	39.7%	In very few cases are independent directors demonstrably independent, the exceptions being Cemex,Modelo, Femsa and Ambev among others.
30	Independent, non-executive directors at least half of the Board	22.4%	Less than 1/4 of LatAm companies have more than half the board being independent directors, but this results come mainly from Brazil with 6.7% while Mexico scores 62.5%.

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Patterns in the scores – Latin America (continued)

	Question	"Yes" score in in country sample (%)	Comments
31	Foreign nationals presence on the Board	37.9%	Only 1/3 of LatAm companies have foreign nationals on the board. This % is equal throughout all LatAm.
32	Full Board meetings at least every quarter	96.6%	Most companies have board meetings every quarter.
33	Board members able to exercise effective scrutiny	72.4%	Most companies brief board members before board meetings, with the exeption of Chile where only 20% of the companies give briefings. Cemex is the only company within Mexico omiting this practice.
34	Audit committee that nominates and reviews work of external auditors	70.7%	Brazil scored the highest with all companies allowing its audit committee to nominate and review the work of external auditors. Just over half the Mexican companies do, and only 13.3% of Chilean companies.
35	Audit committee that supervises internal audit and accounting procedures	60.3%	In this case, Brazil, scored the highest with 90% of its companies allowing its audit committee to supervise internal audit and accounting procedures. Half the Mexican companies do, and only 13.3% of Chilean companies.
36	Acting effectively against individuals who have transgressed	89.7%	In most cases where companies have made decisions that disadvantaged minorities, they have acted to correct such behaviour. In Brazil, we see the lowest figure having 17% of its companies not doing anything to correct the problem.
37	Record on taking measures in cases of mismanagement	22.4%	A little less than half the Brazilian companies have taken effective measures in the event of mismanagement. In Mexico, only Banacci has, while none of Chile have taken any action against management that have transgressed.
38	Measures to protect minority interests	31.0%	60% of Chilean companies have a demonstrable record of protecting all shareholders. Almost none of the Brazilian companies (10%) have had senior management take measures to safeguard the interests of all and not just the dominant shareholders (except for Light, Ambev, Eletropaulo and Usiminas). 25% of Mexican companies have (Telmex and Cemex).
39	Mechanisms to allow punishment of executive/management committee	75.9%	In Brazil and Chile more than 80% of companies punish management for transgressions, but Chile has not taken effective measures in the event of mismanagement. Only half of Mexican companies have a mechanism of this sort.
40	Share trading by board members fair and fully transparent	62.1%	Insider trading is not usually fair and transparent. 50% of Brazilian companies and 80% of Chilean companies have fair and tranparent share trading.

Continued next page

Patterns in the scores – Latin America (continued)

	Question	"Yes" score in in country sample (%)	Comments
41	Board small enough to be efficient and effective	84.5%	Most LatAm companies do, except for Mexican companies where only half of these don't have a small enough board.
42	Majority shareholders treatment of minority shareholders	53.4%	In some cases it would appear that decisions have favoured major shareholders over minorities, in particular for Brazil, where only 30% have not favoured major shareholders. Practically all Brazilian Telecom companies have taken decisions that have favoured major shareholders over minorities. In Mexico, 50% have not and in Chile 86% have not.
43	All equity holders having right to call General Meetings	22.4%	In most of the cases not all equity holders have the right to call General Meetings.
44	Voting methods easily accessible (eg through proxy voting)	58.6%	Voting methods in LatAm are accessible, but only a little more than half the time.
45	Quality of information provided for General Meetings	89.7%	In most cases, the necessary information is provided prior to General Meetings, with the exeption of Usiminas in Brazil.
46	Guiding market expectations on fundamentals	60.3%	Senior management does not try as much as they should, just over half the companies ensure there is a fair value in the market cap. Mexico has the highest level of companies concerned over share price (75%).
47	Issuance of ADRs or placement of shares fair to all shareholders	87.9%	Few LatAm companies have issued depositary receipts.
48	Controlling shareholder group owning less than 40% of company	41.4%	In most cases, major shareholders own more than 40% of the company and hence is in a strong position to push through deals.
49	Portfolio investors owning at least 20% of voting shares	29.3%	Few companies have shareholders with a track record of activism. Companies with at least 20% of their shares in the hands of portfolio investors are Aracruz, Gerdau, CSN and CST among a few others.
50	Priority given to investor relations	48.3%	In Mexico, only 37.5% of the sample report to the CEO.
51	Total Board remuneration rising no faster than net profits	56.9%	Nearly half the companies have remuneration and benefits for directors. Most come from our Brazilian universe, with 70%; 1/3 of Chilean companies and 38% of the Mexican companies under our coverage.
52	Explicit policy emphasising strict ethical behaviour	58.6%	Nearly 90% of Mexican companies, 60% Brazil and 47% in Chile have a public statement emphasising ethical behaviour.
53	Not employing the under-aged	84.5%	All companies under our coverage in Mexico and Brazil have a culture/policy of not employing the under-aged. But only 40% of the Chilean companies do.
54	Explicit equal employment policy	74.1%	All companies in Mexico and Brazil but very few (13.3%) of the Chilean companies have an official policy of equal employment.

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Patterns in the scores – Latin America (continued)

	Question	"Yes" score in in country sample (%)	Comments
55	Adherence to specified industry guidelines on sourcing of materials	98.3%	Most companies adhere to industry guidelines on sourcing materials with those that do not merely transgressing minor, little-publicised matters.
56	Explicit policy on environmental responsibility	34.5%	Mexican companies scored the highest here with 40% of companies explicitily environmentally conscious. Only 33.3% of Brazilian companies under our coverage do and only 20% of companies in Chile.
57	Abstaining from countries where leaders lack legitimacy (Myanmar)	91.4%	Most of the participating companies in this sample had not even heard of Myanmar.

Source: CLSA Emerging Markets

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Appendix 1: CLSA CG questionnaire

Notes on application of questionnaire:

1. For Transparency Section, if in any doubt, answer "No". For other sections, use best judgement but always seek necessary clarification. Any question where the facts cannot be ascertained, but there has been controversy, or questions raised, over whether best practices have been met and/or minority shareholders or other stakeholders have been disadvantaged, answer negatively.
2. If there is any doubt in interpreting a question, note that for each question "Yes" is a positive answer and "No" is negative.
3. For questions that refer to the past five years where new major shareholders have taken over control for a period shorter than five years, take the question to refer to the period that the company has been under the control of the present major shareholder.

Discipline (15%)

1. Has the company issued a "mission statement" that explicitly places a priority on good corporate governance or has the company or management publicly articulated principles of good corporate governance that it is committed to maintaining?
2. Is senior management incentivised to work towards a higher share price for the company, eg, more than 50% of net worth of CEO or controlling family is in the company's equity or at least 50% of expected remuneration for the top executive(s) is tied to the value of the shares? ("Yes" answer must be verified with the individuals in question.)
3. Does management stick to clearly defined core businesses? (Any diversification into an unrelated area in last 3 years would count as "No".)
4. A) What is management's estimate of its cost of equity? (Please specify management's estimate.)

   B) Is management's view of its cost of equity within 10% of a CAPM derived estimate?
5. A) What is management's estimate of its weighted average cost of capital? (Please specify management's estimate.)

   B) Is management's estimate of its cost of capital within 10% of our estimate based on its capital structure?
6. Over the past 5 years, is it true that the Company has not issued equity, or warrants for new equity, for acquisitions and/or financing new projects where there was any controversy over whether the acquisition/project was financially sound, or whether the issue of equity was the best way of financing the project? Is it true there is no reason to be concerned on these grounds about the issue of equity/warrants for new equity in the foreseeable future?
7. Does senior management use debt for investments/capex only where ROA (or average ROI) is clearly higher than cost of debt and where interest cover is no less than 2.5x? In using debt, has management always shown sensitivity to potential asset-liability duration and currency mismatches? ("Yes" if company has no gearing.)
8. Over the past 5 years, is it true that the company has not built up cash levels, through retained earnings or cash calls, that has brought down ROE?
9. Does the company's Annual Report include a section devoted to the company's performance in implementing corporate governance principles?

Transparency (15%)

10. Has management disclosed three- or five-year ROA or ROE targets? If so please state in (11b).
11. Does the company publish its Annual Report within four months of the end of the financial year?
12. Does the company publish/announce semi-annual reports within two months of the end of the half-year?
13. Does the company publish/announce quarterly reports within two months of the end of the quarter?
14. A) In the past 12 months, what is the longest time period between the Board meeting to accept results for a period (quarterly/half-year/finals), and the announcement of the results? (State in working days.)

B) Has the public announcement of results been no longer than two working days of the Board meeting? Is it true that there has not been any case in the past five years when the share price moved noticeably just before the release of results and in a direction that anticipated the results?

15. Are the reports clear and informative? (Based on perception of analyst. Answer "No" if, eg, consolidated accounts are not presented; or if over the past five years there has been occasion when the results announced lacked disclosure subsequently revealed as relevant; if negative factors were downplayed when presenting the Company's results that were important in assessing the business value; or if there is inadequate information on the revenue/profit split for different businesses, or regions/countries and product lines; or inadequate disclosure and/or provisions for contingent liabilities, NPLs and/or likely future losses; or inadequate details of group/related company transactions and their rationale.)

16. Are accounts presented according to IGAAP? Are the accounts free of substantial non-IGAAP compliant qualifications? (If the Company employs non-IGAAP methods to improve stated profits, answer "No". If Company provides two or more sets of accounts and at least one that is readily accessible is according to IGAAP, answer "Yes".)

17. Does the company consistently disclose major and market sensitive information punctually? Is it true that the company has not in the past five years ever failed to disclose information that investors deemed relevant in a timely fashion? (Answer "No", eg, if any instance over the past five years of share price movement ahead of and anticipating an announcement which was believed to be insider buying.)

18. Do analysts have good access to senior management? Good access implies accessibility soon after results are announced and timely meetings where analysts are given all relevant information and are not misled.

19. Does the Company have an English language web-site where results and other announcements are updated promptly (no later than one business day)?

Independence (15%)

20. Is it true that there has been no controversy or questions raised over whether the board and senior management have made decisions in the past five years that benefit them, at the expense of shareholders? (Any loans to group companies/JVs, non-core/non-controlled group-investments, would mean "No").

21. Is the Chairman an independent, non-executive director?

22. Does the company have an executive or management committee that makes most of the executive decisions, which is substantially different from members of the Board and not believed to be dominated by major shareholders? (ie, no more than half are also Board members and major shareholder not perceived as dominating executive decision making.)

23. Does the company have an audit committee? Is it chaired by a perceived genuine independent director?

24. Does the company have a remuneration committee? Is it chaired by a perceived genuine independent director?

25. Does the company have a nominating committee? Is it chaired by a perceived genuine independent director?

26. Are the external auditors of the company in other respects seen to be completely unrelated to the company?

27. Does the board include no direct representatives of banks and other large creditors of the company? (Having any representatives is a negative.)

Accountability (15%)

28. Are the board members and members of the executive/management committee substantially different such that the Board is clearly seen to be playing a primarily supervisory as opposed to an executive role? (ie, no more than half of one committee sits on the other?

29. Does the company have non-executive directors who are <u>demonstrably and unquestionably</u> independent? (Independence of directors must be demonstrated by either being appointed through nomination of non-major shareholders or having on record voted on certain issues against the rest of the Board. If no <u>evidence</u>

of independence, other than being stated to be so by the company and the director(s), then answer "No".)

30. Do independent, non-executive directors account for more than 50% of the Board?

31. Are there any foreign nationals on the Board who are seen as providing added credibility of the Board's independence?

32. Are full Board meetings held at least once a quarter?

33. Are Board members well briefed before Board meetings? Are they provided, as far as the analyst can tell, with the necessary information for effective scrutiny of the company, prior to the meeting, in a clear and informative manner? (Answers 33-35 must be based on direct contact with an independent Board member. If no access is provided, or contact with an independent Board member has not yet been made, answer "No" to each question.)

34. Does the audit committee nominate and conduct a proper review the work of external auditors as far as the analyst can tell?

35. Does the audit committee supervise internal audit and accounting procedures as far as the analyst can tell?

Responsibility (15%)

36. If the Board/senior management have made decisions in recent years seen to benefit them at the expense of shareholders (cf Q20 above), has the Company been seen as acting effectively against individuals responsible and corrected such behaviour promptly, ie, within 6 months? (If no such case, answer this question as "Yes".)

37. Does the company have a known record of taking effective measures in the event of mismanagement? Over the past five years, if there were flagrant business failures or misdemeanours, were the persons responsible appropriately and voluntarily punished? (If no cases, the Company does not have such a record, then answer this question as "No.")

38. Is there any controversy or questions over whether the Board and/or senior management take measures to safeguard the interests of all and not just the dominant shareholders? (eg, if EGMs with genuine independent advice for related party transactions were not held, or independent verification of appropriate pricing for recurrent related party transactions not obtained, answer as "No".)

39. Are there mechanisms to allow punishment of the executive/management committee in the event of mismanagement as far as the analyst can tell for certain?

40. Is it true that there have been no controversies/ questions over whether the share trading by Board members have been fair, fully transparent and well intentioned? (Are announcements made to the exchange within 3 working days, and do the major shareholders reveal or transactions including those under nominee names? Any case where believed by some that parties related to major shareholder were involved in transactions not disclosed to the exchange, or allegations of insider trading, would mean "No".)

41. A) How many members are on the Board? (Please specify.)

    B) Is the board small enough to be efficient and effective? (If more than 12, answer "No".)

Fairness (15%)

42. Is it true that there have not been any controversy or questions raised over any decisions by senior management in the past 5 years where majority shareholders are believed to have gained at the expense of minority shareholders?

43. Do all equity holders have the right to call General Meetings? (Any classes of shares that disenfranchise their holders would mean "No" answer.)

44. Are voting methods easily accessible (eg, proxy voting)?

45. Are all necessary (ie, not just obligatory, but also relevant in the view of the analyst regarding accounting etc) information for General Meetings made available prior to General Meeting?

46. Is senior management unquestionably seen as trying to ensure fair value is reflected in the market price of the stock, by guiding market expectations about fundamentals in the right direction through frank discussion on risk/ returns, actions like share buy-backs and investor meetings, etc?

47. Is it true that there has been no questions or perceived controversy over whether the Company has issued depositary receipts that benefited primarily major shareholders, nor has the Company issued new shares to investors near peak prices, nor have the major shareholders sold shares near peak prices without prior guidance to market on why shares are seen as fully-valued? (Any such example in last five years, would mean "No".)

48. Does the majority shareholder group own less than 40% of the company?

49. Do foreign portfolio managers, and/or domestic portfolio investors who have a track record in engaging management on CG issues, own at least 20% of the total shares with voting rights?

50. Does the head of Investor Relations report to either the CEO or a Board member?

51. A) What is total remuneration of the Board as a percentage of net profit after exceptionals?

    B) Over the past five years, is it true that total directors remuneration has not increased faster than net profit after exceptionals as far as an analyst can tell? (Answer "No" if directors remuneration has increased faster than profits or if Company does not make any declaration to clarify.)

Social awareness (10%)

52. Does the company have an explicit (clearly worded) public policy statements that emphasise strict ethical behaviour: ie, one that looks at the spirit and not just the letter of the law?

53. Does the company have a policy/culture that prohibits the employment of the under-aged as far as the analyst can tell?

54. Does the company have an explicit equal employment policy: ie, no discrimination on the basis of sex, race, religion etc?

55. Does the Company adhere to specified industry guidelines on sourcing of materials as far as the analyst can tell?

56. Is the company explicitly environmentally conscious? Does it promote use of environmentally efficient products, or takes steps to reduce pollution, or to participate in environment-related campaigns? (If there are no concrete examples of this, then answer "No".)

57. Is it true that the company has no investments/ operations in Myanmar?

Appendix 2: CG country averages

	Companies ranked	Discipline (%)	Transp. (%)	Indep. (%)	A/C ability (%)	Resp. (%)	Fairness (%)	Social (%)	Wgtd CG (%)	Spread in CG score (%)
Singapore	43	55.6	66.5	80.6	45.3	70.2	75.6	54.3	64.5	39.9
Hong Kong	38	51.2	65.8	55.5	54.6	71.1	77.2	65.8	62.9	52.9
Malaysia	47	48.5	63.4	66.6	37.5	51.8	70.0	59.6	56.6	53.2
India	80	56.8	38.4	50.9	53.8	42.9	73.3	82.3	55.6	56.2
Thailand	20	36.1	64.5	43.2	63.1	46.7	70.3	65.0	55.1	43.9
Taiwan	47	48.2	58.1	77.8	41.2	38.7	50.4	74.8	54.6	42.9
China	25	40.9	55.2	42.6	33.5	49.3	68.9	55.3	49.1	22.0
Korea	24	38.0	55.0	38.1	53.6	38.2	45.1	68.8	47.1	25.2
Philippines	20	40.6	43.5	45.7	33.8	35.8	40.8	78.3	43.9	42.1
Indonesia	18	35.8	57.2	22.2	20.8	34.3	53.4	37.0	37.3	51.0
Pakistan	11	39.4	32.0	33.8	29.3	27.8	23.2	61.1	33.9	46.7
South Africa	40	60.3	59.3	65.2	68.3	72.5	81.3	83.3	69.3	37.5
EEMA – Other	8	45.8	41.3	58.0	56.3	47.9	31.9	27.1	44.9	45.3
Turkey	17	50.3	52.9	29.8	31.6	36.3	40.5	67.6	43.0	30.0
Latam	57	54.4	78.6	60.8	58.3	61.1	54.9	73.4	62.6	31.1

Source: CLSA Emerging Markets

Appendix 3: Average CG scores of sectors (%)

	Discipline	Transp.	Indep.	A/C ability	Resp.	Fairness	Social	Wgtd CG
Transport	68.1	68.8	75.0	48.4	77.1	84.0	58.3	69.0
Manufacturing	48.9	60.0	62.9	52.5	70.0	66.7	80.0	62.1
Metal & mining	51.2	53.3	58.7	59.7	53.7	72.5	87.0	61.1
Consumer	57.1	58.8	59.9	42.0	56.3	75.9	71.3	59.6
Airlines	46.7	58.0	64.3	37.5	63.3	76.7	66.7	58.6
Banks	50.6	65.6	62.1	56.3	48.5	60.8	68.5	58.4
Tech	51.3	54.3	67.3	47.5	46.4	61.5	74.1	56.6
Conglos	46.5	59.4	52.2	49.6	53.1	71.5	63.0	56.2
Autos	39.8	54.2	53.0	49.0	51.4	77.3	68.1	55.5
Media	40.5	52.9	52.9	51.5	55.9	77.5	56.9	55.4
Telcos	51.8	61.0	57.3	50.8	52.5	51.4	64.4	55.2
Materials & cement	47.7	65.3	42.0	64.0	56.9	47.7	62.7	54.8
Property	43.5	56.3	53.6	41.7	67.4	54.2	60.4	53.5
Power	43.5	56.5	48.3	46.0	45.1	64.2	70.1	52.5
Hotels & leisure	42.9	61.4	50.0	28.6	50.0	66.7	54.8	50.4
Infrastruc.	39.7	52.9	58.2	23.2	47.6	67.5	57.1	49.1
Pharmaceuticals	48.4	39.3	31.6	33.0	42.9	71.0	88.1	48.7
Petrochem	54.8	38.7	46.5	41.0	40.1	48.4	66.9	47.1

Source: CLSA Emerging Markets

Appendix 4: CG scores by GEM sector – Airlines (%)

Company name	Country	Discipline	Transp.	Indep.	A/C ability	Resp.	Fairness	Social	Wgtd CG
Singapore Airlines	Singapore	88.9	70.0	100.0	62.5	100.0	94.4	83.3	85.7
Cathay Pacific	Hong Kong	44.4	70.0	71.4	87.5	83.3	83.3	100.0	76.0
China Southern Airlines	China	33.3	60.0	64.3	12.5	50.0	88.9	50.0	51.4
China Eastern Airlines	China	33.3	40.0	64.3	12.5	50.0	88.9	50.0	48.4
MAS	Malaysia	33.3	50.0	21.4	12.5	33.3	27.8	50.0	31.8
Sector average		**46.7**	**58.0**	**64.3**	**37.5**	**63.3**	**76.7**	**66.7**	**58.6**

Source: CLSA Emerging Markets

Appendix 5: CG scores by GEM sector – Autos (%)

Company name	Country	Discipline	Transp.	Indep.	A/C ability	Resp.	Fairness	Social	Wgtd CG
Brilliance	China	66.7	50.0	78.6	62.5	83.3	88.9	50.0	69.5
UMW	Malaysia	44.4	70.0	78.6	62.5	66.7	77.8	66.7	66.7
Hero Honda	India	33.3	60.0	71.4	62.5	50.0	100.0	83.3	64.9
EON	Malaysia	44.4	60.0	78.6	50.0	66.7	83.3	50.0	62.5
Tan Chong	Malaysia	55.6	60.0	71.4	25.0	66.7	77.8	50.0	58.5
Punjab Tractors	India	22.2	50.0	71.4	25.0	50.0	100.0	100.0	57.8
Bajaj Auto	India	44.4	60.0	21.4	50.0	33.3	88.9	100.0	54.7
Proton	Malaysia	33.3	50.0	78.6	37.5	50.0	72.2	50.0	53.2
Telco	India	44.4	40.0	21.4	50.0	33.3	94.4	83.3	50.9
M&M	India	22.2	50.0	14.3	62.5	33.3	94.4	83.3	49.9
Hyundai Motor	Korea	22.2	40.0	35.7	75.0	33.3	27.8	66.7	41.8
Astra Otoparts	Indonesia	44.4	60.0	14.3	25.0	50.0	22.2	33.3	35.7
Sector average		**39.8**	**54.2**	**53.0**	**49.0**	**51.4**	**77.3**	**68.1**	**55.5**

Source: CLSA Emerging Markets

Appendix 6: CG scores by GEM sector – Banks and financial institutions (%)

Company name	Country	Discipline	Transp.	Indep.	A/C ability	Resp.	Fairness	Social	Wgtd CG
HSBC	Hong Kong	88.9	90.0	100.0	100.0	83.3	94.4	100.0	93.5
HDFC Bank	India	88.9	70.0	78.6	75.0	100.0	88.9	100.0	85.2
Stanbic	South Africa	88.9	70.0	42.9	87.5	83.3	88.9	100.0	79.2
Coronation	South Africa	66.7	50.0	85.7	87.5	100.0	88.9	66.7	78.5
FirstRand	South Africa	88.9	60.0	42.9	87.5	83.3	88.9	100.0	77.7
HDFC	India	77.8	50.0	78.6	75.0	83.3	83.3	100.0	77.2
ABSA	South Africa	77.8	70.0	42.9	75.0	83.3	94.4	100.0	76.5
Nedcor	South Africa	66.7	70.0	42.9	87.5	83.3	88.9	100.0	75.9
BOE	South Africa	55.6	70.0	50.0	87.5	83.3	88.9	100.0	75.3
Investec	South Africa	88.9	60.0	42.9	75.0	83.3	83.3	100.0	75.0
DBS Group	Singapore	44.4	90.0	92.9	62.5	66.7	94.4	66.7	74.3
Public Bank	Malaysia	77.8	60.0	100.0	50.0	66.7	94.4	66.7	74.0
Alexander Forbes	South Africa	77.8	50.0	50.0	87.5	66.7	94.4	100.0	74.0
ICICI Bank	India	55.6	70.0	78.6	62.5	83.3	83.3	83.3	73.3
Hang Seng	Hong Kong	55.6	70.0	78.6	75.0	83.3	72.2	66.7	71.9
OUB	Singapore	66.7	80.0	78.6	37.5	66.7	94.4	66.7	70.2
Bank Sinopac	Taiwan	77.8	80.0	92.9	50.0	33.3	88.9	66.7	70.1
Dao Heng	Hong Kong	44.4	70.0	71.4	75.0	83.3	77.8	50.0	68.3
Dah Sing	Hong Kong	55.6	70.0	71.4	75.0	66.7	83.3	50.0	68.3
Bk of East Asia	Hong Kong	55.6	70.0	71.4	62.5	83.3	77.8	50.0	68.1
Wing Hang	Hong Kong	55.6	70.0	71.4	62.5	83.3	77.8	50.0	68.1
Banco Itaú	Brazil	77.8	80.0	85.7	75.0	50.0	27.8	83.3	67.8
Sanlam	South Africa	66.7	80.0	71.4	50.0	50.0	88.9	66.7	67.7
Citic Ka Wah	Hong Kong	55.6	70.0	71.4	62.5	83.3	72.2	50.0	67.3
Int'l Bk of Asia	Hong Kong	55.6	70.0	71.4	62.5	83.3	72.2	50.0	67.3
Wing Lung	Hong Kong	55.6	70.0	71.4	62.5	83.3	72.2	50.0	67.3
Old Mutual	South Africa	66.7	50.0	78.6	50.0	66.7	88.9	66.7	66.8
ICICI	India	66.7	70.0	78.6	50.0	33.3	88.9	83.3	66.5
Liberty	South Africa	66.7	70.0	78.6	50.0	50.0	83.3	66.7	66.5
Maybank	Malaysia	66.7	60.0	100.0	50.0	50.0	77.8	50.0	65.7
Keppel Capital	Singapore	33.3	90.0	78.6	50.0	50.0	88.9	66.7	65.3
Aflife	South Africa	33.3	60.0	78.6	71.4	66.7	77.8	66.7	64.8
OCBC	Singapore	33.3	90.0	85.7	37.5	50.0	88.9	66.7	64.5
UOB	Singapore	33.3	80.0	78.6	37.5	66.7	83.3	66.7	63.6
AMMB	Malaysia	66.7	60.0	92.9	37.5	50.0	83.3	50.0	63.6
Metlife	South Africa	66.7	50.0	78.6	50.0	50.0	77.8	66.7	62.6
Siam Commercial Bank	Thailand	55.6	90.0	42.9	75.0	33.3	72.2	66.7	62.0
IDBI	India	44.4	20.0	78.6	62.5	66.7	77.8	83.3	60.8
Alpha Credit Bank	Greece	44.4	50.0	85.7	75.0	83.3	33.3	50.0	60.8
Yuanta Sec	Taiwan	44.4	70.0	78.6	25.0	50.0	77.8	83.3	60.2
Commerce Asset	Malaysia	55.6	70.0	100.0	87.5	16.7	33.3	50.0	59.5
Thai Farmers Bank	Thailand	55.6	80.0	28.6	75.0	33.3	72.2	66.7	58.4
Housing & Comm Bank	Korea	55.6	70.0	64.3	62.5	16.7	83.3	50.0	57.9
State Bank of India	India	44.4	40.0	78.6	75.0	50.0	33.3	83.3	56.5
Garanti	Turkey	44.4	90.0	21.4	50.0	50.0	83.3	50.0	55.9
Corporation Bank	India	44.4	40.0	78.6	75.0	50.0	27.8	83.3	55.7
Taishin Bank	Taiwan	44.4	80.0	78.6	37.5	33.3	38.9	83.3	55.2
BBL	Thailand	44.4	80.0	28.6	62.5	33.3	72.2	66.7	54.8

Continued next page

Appendix 6: CG scores by GEM sector – Banks and financial institutions (%) (continued)

Company name	Country	Discipline	Transp.	Indep.	A/C ability	Resp.	Fairness	Social	Wgtd CG
Unibanco	Brazil	33.3	80.0	85.7	75.0	16.7	16.7	83.3	54.4
Banacci	Mexico	33.3	70.0	78.6	75.0	33.3	16.7	83.3	54.4
BPI	Phil	55.6	50.0	78.6	50.0	16.7	66.7	66.7	54.3
Bank of Baroda	India	44.4	40.0	78.6	75.0	50.0	27.8	66.7	54.0
National Bank of Greece	Greece	55.6	50.0	78.6	50.0	50.0	38.9	50.0	53.5
KorAm Bank	Korea	44.4	60.0	57.1	62.5	16.7	77.8	50.0	52.8
Bank of India	India	33.3	40.0	78.6	75.0	50.0	27.8	66.7	52.4
Fubon Bank	Taiwan	33.3	70.0	78.6	50.0	33.3	27.8	83.3	52.3
Hana Bank	Korea	22.2	60.0	64.3	62.5	33.3	72.2	50.0	52.2
Bancomer	Mexico	33.3	70.0	78.6	75.0	16.7	16.7	83.3	51.9
MAA	Malaysia	77.8	60.0	21.4	50.0	50.0	50.0	50.0	51.4
UWCCB	Taiwan	44.4	80.0	78.6	37.5	16.7	27.8	83.3	51.1
Capital	South Africa	55.6	50.0	21.4	21.4	66.7	77.8	66.7	50.6
Kookmin Bank	Korea	22.2	60.0	57.1	62.5	16.7	77.8	50.0	49.4
Cathay Life	Taiwan	44.4	70.0	85.7	25.0	16.7	27.8	83.3	48.8
Akbank	Turkey	33.3	80.0	21.4	50.0	33.3	72.2	50.0	48.5
Chinatrust Bank	Taiwan	44.4	90.0	35.7	37.5	16.7	27.8	83.3	46.1
CDIB	Taiwan	22.2	70.0	78.6	25.0	16.7	33.3	83.3	45.2
Shinhan Bank	Korea	44.4	70.0	57.1	50.0	16.7	22.2	50.0	44.1
ICBC	Taiwan	33.3	70.0	71.4	25.0	16.7	16.7	83.3	43.3
Yapi Kredi Bank	Turkey	33.3	80.0	21.4	50.0	16.7	27.8	50.0	39.4
RHB Capital	Malaysia	55.6	70.0	42.9	25.0	0.0	27.8	50.0	38.2
Isbank	Turkey	11.1	40.0	28.6	50.0	16.7	72.2	50.0	37.8
First Bank	Taiwan	22.2	80.0	21.4	25.0	16.7	16.7	83.3	35.6
Chang Hwa Bank	Taiwan	22.2	70.0	21.4	25.0	16.7	16.7	83.3	34.1
MCB	Pakistan	55.6	40.0	7.1	12.5	33.3	27.8	66.7	33.1
China Everbright	China	22.2	50.0	14.3	50.0	33.3	16.7	50.0	33.0
Lippo Bank	Indonesia	22.2	60.0	14.3	25.0	33.3	38.9	33.3	32.4
Bank Central Asia	Indonesia	33.3	80.0	21.4	12.5	16.7	38.9	16.7	32.1
Metrobank	Phil	33.3	40.0	21.4	37.5	33.3	11.1	50.0	31.5
Equitable-PCI Bank	Phil	11.1	40.0	21.4	50.0	16.7	16.7	66.7	30.0
Askari Bank	Pakistan	33.3	40.0	14.3	12.5	16.7	27.8	66.7	28.4
Sector average		**50.6**	**65.6**	**62.1**	**56.3**	**48.5**	**60.8**	**68.5**	**58.4**

Source: CLSA Emerging Markets

Appendix 7: CG scores by GEM sector – Conglomerates (%)

Company name	Country	Discipline	Transp.	Indep.	A/C ability	Resp.	Fairness	Social	Wgtd CG
Richemont	South Africa	66.7	70.0	92.9	87.5	100.0	88.9	66.7	82.6
South African Breweries plc	South Africa	77.8	70.0	92.9	87.5	83.3	88.9	66.7	81.7
Remgro	South Africa	66.7	70.0	92.9	75.0	83.3	94.4	66.7	79.0
Bidvest	South Africa	55.6	60.0	85.7	75.0	83.3	100.0	100.0	78.9
SembCorp Industries	Singapore	55.6	90.0	92.9	62.5	66.7	94.4	66.7	76.0
ST Engg	Singapore	100.0	90.0	64.3	25.0	83.3	88.9	50.0	72.7
Natsteel Ltd	Singapore	66.7	80.0	92.9	50.0	66.7	88.9	50.0	71.8
Rebhold	South Africa	33.3	60.0	78.6	50.0	100.0	88.9	83.3	70.0
Swire	Hong Kong	66.7	60.0	64.3	75.0	33.3	94.4	100.0	69.1
Jardine Matheson	Singapore	55.6	80.0	21.4	62.5	50.0	88.9	100.0	63.8
Haw Par Corporation	Singapore	44.4	60.0	71.4	37.5	83.3	88.9	50.0	62.8
Keppel Corp	Singapore	22.2	90.0	85.7	37.5	66.7	83.3	50.0	62.8
Cycle and Carriage	Singapore	66.7	70.0	85.7	25.0	50.0	88.9	33.3	61.3
Copec	Chile	77.8	50.0	85.7	50.0	33.3	66.7	66.7	61.2
Soquimich	Chile	55.6	70.0	71.4	37.5	50.0	88.9	50.0	61.0
First Pacific	Hong Kong	55.6	80.0	14.3	62.5	33.3	88.9100.00.2		
Koc Holding	Turkey	77.8	40.0	71.4	62.5	66.7	22.2	83.3	59.4
Sime Darby	Malaysia	33.3	40.0	100.0	50.0	50.0	88.9	50.0	59.3
China Merchants	China	33.3	30.0	35.7	62.5	66.7	83.3	50.0	51.7
Fraser and Neave	Singapore	44.4	60.0	21.4	37.5	50.0	88.9	33.3	48.7
CITIC Pacific	China	22.2	50.0	21.4	62.5	33.3	77.8	50.0	45.1
YTL Corp	Malaysia	22.2	30.0	71.4	12.5	50.0	77.8	50.0	44.6
CITIC Pacific	Hong Kong	22.2	40.0	21.4	62.5	33.3	77.8	50.0	43.6
Hutchison	Hong Kong	33.3	40.0	7.1	37.5	33.3	88.9	66.7	42.7
China Resources	China	44.4	70.0	14.3	50.0	33.3	22.2	50.0	40.1
Astra International	Indonesia	33.3	60.0	7.1	25.0	16.7	100.0	33.3	39.7
Ayala Corp	Phil	22.2	40.0	21.4	62.5	33.3	16.7	66.7	36.1
Benpres	Phil	33.3	40.0	14.3	25.0	33.3	33.3	83.3	35.2
First Phil Holdings	Phil	33.3	50.0	14.3	25.0	33.3	33.3	66.7	35.1
Bimantara	Indonesia	44.4	60.0	21.4	12.5	33.3	27.8	50.0	34.9
RFM	Phil	11.1	40.0	21.4	50.0	33.3	11.1	83.3	33.4
Shanghai Industrial	China	11.1	60.0	14.3	50.0	33.3	16.7	50.0	32.8
Sector average		**46.5**	**59.4**	**52.2**	**49.6**	**53.1**	**71.5**	**63.0**	**56.2**

Source: CLSA Emerging Markets

Appendix 8: CG scores by GEM sector – Consumer (%)

Company name	Country	Discipline	Transp.	Indep.	A/C ability	Resp.	Fairness	Social	Wgtd CG
Li & Fung	Hong Kong	100.0	70.0	71.4	75.0	83.3	94.4	100.0	84.1
BAT	Malaysia	77.8	80.0	100.0	50.0	83.3	94.4	50.0	77.8
Carlsberg	Malaysia	55.6	80.0	78.6	87.5	66.7	88.9	83.3	76.9
Ambev	Brazil	77.8	80.0	35.7	87.5	66.7	83.3	100.0	74.6
Giordano	Hong Kong	88.9	70.0	71.4	62.5	66.7	100.0	50.0	73.9
Modelo	Mexico	77.8	90.0	35.7	75.0	50.0	83.3	100.0	71.8
Nestle	Malaysia	77.8	70.0	85.7	50.0	66.7	83.3	66.7	71.7
Femsa	Mexico	77.8	90.0	35.7	62.5	50.0	83.3	100.0	69.9
Courts Mammoth	Malaysia	55.6	90.0	78.6	50.0	66.7	88.9	50.0	69.5
Cerebos	Singapore	77.8	70.0	100.0	25.0	66.7	83.3	50.0	68.4
CCU	Chile	55.6	90.0	71.4	50.0	83.3	83.3	33.3	68.4
Andina	Chile	44.4	90.0	71.4	37.5	83.3	83.3	66.7	68.2
Hindustan Lever	India	88.9	50.0	78.6	37.5	33.3	94.4	100.0	67.4
Makro	Thailand	33.3	50.0	78.6	87.5	66.7	88.9	66.7	67.4
ITC	India	66.7	50.0	92.9	37.5	33.3	100.0	100.0	67.1
Esprit	Hong Kong	77.8	70.0	21.4	62.5	83.3	94.4	50.0	66.4
PCSC	Taiwan	55.6	70.0	100.0	75.0	50.0	44.4	66.7	65.9
Viña Concha y Toro	Chile	44.4	90.0	71.4	37.5	83.3	77.8	50.0	65.7
DYS	Chile	55.6	90.0	64.3	25.0	83.3	83.3	50.0	65.2
Unilever Indonesia	Indonesia	77.8	60.0	64.3	25.0	66.7	83.3	83.3	64.9
Asia Pacific Breweries	Singapore	77.8	60.0	71.4	37.5	66.7	83.3	50.0	64.5
La Tondeña Distillers, Inc.	Phil	55.6	40.0	85.7	50.0	50.0	77.8	100.0	63.9
Hite	Korea	66.7	60.0	71.4	62.5	50.0	77.8	50.0	63.3
Cadbury	India	66.7	40.0	71.4	37.5	33.3	94.4	100.0	61.5
JTI	Malaysia	33.3	70.0	85.7	37.5	66.7	77.8	50.0	60.6
Shinsegae	Korea	44.4	60.0	71.4	50.0	66.7	77.8	50.0	60.5
Guinness	Malaysia	33.3	70.0	78.6	37.5	50.0	77.8	83.3	60.4
Colgate	India	66.7	40.0	71.4	25.0	33.3	94.4	100.0	59.6
Falabella	Chile	55.6	50.0	64.3	37.5	83.3	72.2	50.0	59.4
Nestle	India	66.7	30.0	71.4	37.5	33.3	88.9	100.0	59.2
Robinson	Singapore	55.6	60.0	71.4	12.5	83.3	77.8	50.0	59.1
AEFES	Turkey	66.7	70.0	21.4	50.0	83.3	44.4	83.3	58.7
Bavaria	Colombia	55.6	50.0	35.7	50.0	50.0	77.8	100.0	57.9
Almacenes Paris	Chile	55.6	50.0	64.3	25.0	83.3	72.2	50.0	57.6
Britannia	India	66.7	30.0	71.4	25.0	33.3	88.9	100.0	57.3
SM Prime Holdings, Inc.	Phil	44.4	30.0	71.4	25.0	66.7	77.8	83.3	55.6
Tata Tea	India	44.4	40.0	71.4	25.0	33.3	88.9	100.0	55.5
Arcelik	Turkey	33.3	70.0	71.4	62.5	50.0	16.7	83.3	53.9
Jollibee Foods Corp.	Phil	66.7	40.0	28.6	25.0	83.3	38.9	100.0	52.4
Cheil Jedang	Korea	11.1	70.0	35.7	37.5	66.7	83.3	66.7	52.3
Asian Paints	India	55.6	50.0	21.4	25.0	33.3	94.4	100.0	52.0
Ramayana	Indonesia	66.7	60.0	14.3	25.0	33.3	88.9	33.3	46.6
Gudang Garam	Indonesia	44.4	50.0	64.3	12.5	50.0	66.7	16.7	44.9
McDowell's	India	55.6	20.0	14.3	25.0	33.3	83.3	100.0	44.7
United Breweries	India	55.6	20.0	14.3	25.0	33.3	83.3	100.0	44.7
Lever Brothers	Pakistan	22.2	30.0	78.6	50.0	33.3	27.8	66.7	43.0
HM Sampoerna	Indonesia	33.3	60.0	14.3	25.0	33.3	77.8	0.0	36.6
San Miguel Corp.	Phil	33.3	30.0	42.9	37.5	16.7	27.8	83.3	36.6
Vestel	Turkey	33.3	40.0	21.4	12.5	16.7	16.7	83.3	29.4
Indofood	Indonesia	22.2	50.0	14.3	12.5	33.3	22.2	16.7	24.9
Sample average		**57.1**	**58.8**	**59.9**	**42.0**	**56.3**	**75.9**	**71.3**	**59.6**

Source: CLSA Emerging Markets

Appendix 9: CG scores by GEM sector – Hotel & Leisure (%)

Company name	Country	Discipline	Transp.	Indep.	A/C ability	Resp.	Fairness	Social	Wgtd CG
Tanjong	Malaysia	66.7	70.0	92.9	62.5	83.3	94.4	66.7	77.1
Resorts	Malaysia	55.6	80.0	78.6	12.5	50.0	83.3	50.0	59.0
Genting	Malaysia	55.6	80.0	78.6	12.5	50.0	83.3	33.3	57.3
Indian Hotels	India	55.6	60.0	28.6	37.5	66.7	83.3	50.0	54.7
EIH	India	55.6	40.0	28.6	37.5	66.7	77.8	50.0	50.9
Magnum	Malaysia	11.1	50.0	21.4	12.5	16.7	27.8	66.7	27.6
Btoto	Malaysia	0.0	50.0	21.4	25.0	16.7	16.7	66.7	26.1
Sector average		**42.9**	**61.4**	**50.0**	**28.6**	**50.0**	**66.7**	**54.8**	**50.4**

Source: CLSA Emerging Markets

Appendix 10: CG scores by GEM sector – Infrastructure (%)

Company name	Country	Discipline	Transp.	Indep.	A/C ability	Resp.	Fairness	Social	Wgtd CG
Gamuda	Malaysia	66.7	60.0	85.7	12.5	66.7	94.4	50.0	62.9
Sabesp	Brazil	22.2	50.0	85.7	62.5	66.7	61.1	83.3	60.6
Zhejiang Expressway	China	44.4	50.0	64.3	12.5	50.0	88.9	50.0	51.5
Jiangsu Expressway	China	44.4	50.0	64.3	12.5	50.0	83.3	50.0	50.7
Beijing Airport	China	33.3	50.0	64.3	12.5	50.0	88.9	50.0	49.9
BECL	Thailand	33.3	80.0	21.4	37.5	33.3	38.9	66.7	43.3
UEM	Malaysia	33.3	30.0	21.4	12.5	16.7	16.7	50.0	24.6
Sector average		**39.7**	**52.9**	**58.2**	**23.2**	**47.6**	**67.5**	**57.1**	**49.1**

Source: CLSA Emerging Markets

Appendix 11: CG scores by GEM sector – Manufacturing (%)

Company name	Country	Discipline	Transp.	Indep.	A/C ability	Resp.	Fairness	Social	Wgtd CG
Embraer	Brazil	88.9	100.0	78.6	50.0	66.7	33.3	83.3	71.0
Johnson Electric	Hong Kong	44.4	70.0	71.4	62.5	83.3	88.9	66.7	69.8
Sappi	South Africa	33.3	50.0	71.4	75.0	50.0	94.4	100.0	66.1
ASM Pacific	Hong Kong	55.6	40.0	71.4	25.0	83.3	83.3	66.7	60.5
Yue Yuen	Hong Kong	22.2	40.0	21.4	50.0	66.7	33.3	83.3	43.4
Sector average		**48.9**	**60.0**	**62.9**	**52.5**	**70.0**	**66.7**	**80.0**	**62.1**

Source: CLSA Emerging Markets

Appendix 12: CG scores by GEM sector – Materials & Cement (%)

Company name	Country	Discipline	Transp.	Indep.	A/C ability	Resp.	Fairness	Social	Wgtd CG
Buenaventura	Peru	77.8	90.0	78.6	62.5	66.7	83.3	66.7	75.5
Cemex	Mexico	66.7	70.0	78.6	50.0	66.7	94.4	100.0	74.0
Antofagasta	Chile	55.6	90.0	78.6	62.5	66.7	77.8	66.7	71.3
Aracruz	Brazil	66.7	90.0	42.9	87.5	83.3	38.9	66.7	68.1
Usiminas	Brazil	33.3	90.0	28.6	87.5	83.3	72.2	66.7	65.9
VCP	Brazil	55.6	80.0	42.9	75.0	83.3	33.3	66.7	62.2
Gerdau	Brazil	55.6	80.0	35.7	75.0	83.3	33.3	66.7	61.1
CSN	Brazil	33.3	80.0	42.9	75.0	83.3	27.8	66.7	58.0
CST	Brazil	33.3	70.0	42.9	87.5	66.7	33.3	66.7	56.7
Grasim Industries	India	66.7	60.0	35.7	62.5	50.0	44.4	50.0	52.9
Madras Cement	India	55.6	50.0	21.4	50.0	50.0	77.8	50.0	50.7
POSCO	Korea	44.4	40.0	42.9	75.0	33.3	38.9	83.3	49.5
Klabin	Brazil	22.2	70.0	42.9	75.0	50.0	22.2	66.7	49.0
Gujarat Ambuja	India	55.6	50.0	21.4	50.0	33.3	77.8	50.0	48.2
ACC	India	33.3	50.0	35.7	62.5	33.3	27.8	50.0	41.4
Semen Gresik	Indonesia	44.4	30.0	21.4	37.5	33.3	22.2	50.0	33.3
Indocement	Indonesia	11.1	20.0	21.4	12.5	0.0	5.6	33.3	13.9
Sector average		**47.7**	**65.3**	**42.0**	**64.0**	**56.9**	**47.7**	**62.7**	**54.8**

Source: CLSA Emerging Markets

Appendix 13: CG scores by GEM sector – Media (%)

Company name	Country	Discipline	Transp.	Indep.	A/C ability	Resp.	Fairness	Social	Wgtd CG
BEC	Thailand	33.3	80.0	78.6	62.5	83.3	94.4	66.7	71.5
GRAMMY	Thailand	22.2	50.0	28.6	50.0	66.7	88.9	66.7	52.6
UBC	Thailand	44.4	50.0	21.4	62.5	66.7	33.3	83.3	50.1
Phoenix TV	China	44.4	80.0	64.3	62.5	66.7	100.0	50.0	67.7
Zee Telefilms	India	66.7	30.0	28.6	50.0	33.3	77.8	33.3	46.3
Television Eighteen	India	33.3	40.0	21.4	50.0	33.3	88.9	33.3	43.4
Sri Adhikari Bros	India	22.2	20.0	21.4	50.0	33.3	77.8	33.3	37.0
Cheil Communications	Korea	55.6	50.0	35.7	37.5	50.0	77.8	50.0	51.0
ABS-CBN	Phil	66.7	50.0	71.4	25.0	50.0	66.7	66.7	56.1
TVB	Hong Kong	33.3	40.0	78.6	50.0	66.7	94.4	50.0	59.5
SCMP	Hong Kong	11.1	60.0	21.4	50.0	66.7	50.0	50.0	43.9
Singapore Press Holdings	Singapore	66.7	80.0	85.7	87.5	66.7	94.4	83.3	80.5
Star	Malaysia	33.3	80.0	85.7	37.5	66.7	83.3	66.7	64.6
NSTP	Malaysia	22.2	70.0	85.7	25.0	50.0	83.3	66.7	57.1
Naspers	South Africa	55.6	50.0	71.4	75.0	66.7	66.7	66.7	64.5
MHH	South Africa	55.6	50.0	71.4	75.0	66.7	66.7	66.7	64.5
Dogan Yayin Holding	Turkey	22.2	20.0	28.6	25.0	16.7	72.2	33.3	31.0
Sector average		**40.5**	**52.9**	**52.9**	**51.5**	**55.9**	**77.5**	**56.9**	**55.4**

Source: CLSA Emerging Markets

Appendix 14: CG scores by GEM sector – Metals & Mining (%)

Company name	Country	Discipline	Transp.	Indep.	A/C ability	Resp.	Fairness	Social	Wgtd CG
Anglogold	South Africa	55.6	80.0	71.4	75.0	100.0	77.8	100.0	79.0
Harmony	South Africa	55.6	80.0	78.6	75.0	83.3	83.3	100.0	78.4
Goldfields	South Africa	55.6	70.0	71.4	75.0	100.0	83.3	100.0	78.3
De Beers	South Africa	55.6	30.0	92.9	75.0	83.3	77.8	100.0	72.2
Billiton	South Africa	33.3	70.0	28.6	75.0	83.3	100.0	100.0	68.5
Implats	South Africa	55.6	50.0	92.9	75.0	66.7	44.4	100.0	67.7
Angloplat	South Africa	55.6	50.0	92.9	75.0	50.0	44.4	100.0	65.2
Iscor	South Africa	22.2	40.0	85.7	62.5	66.7	88.9	100.0	64.9
Anglo American	South Africa	44.4	70.0	42.9	62.5	50.0	94.4	100.0	64.6
Indal	India	88.9	30.0	78.6	87.5	16.7	77.8	66.7	63.6
Anglovaal Mining	South Africa	55.6	70.0	50.0	75.0	66.7	38.9	100.0	63.4
TISCO	India	66.7	30.0	71.4	75.0	16.7	77.8	66.7	57.3
Hindalco	India	77.8	40.0	21.4	50.0	16.7	88.9	66.7	50.9
INCO Indonesia	Indonesia	22.2	80.0	14.3	37.5	50.0	66.7	100.0	50.6
Yanzhou	China	22.2	50.0	64.3	12.5	50.0	83.3	66.7	49.0
Sterlite Industries	India	66.7	50.0	21.4	25.0	16.7	83.3	66.7	46.1
Nalco	India	33.3	10.0	64.3	50.0	33.3	77.8	50.0	45.3
ERDEMIR	Turkey	55.6	60.0	14.3	12.5	16.7	16.7	83.3	34.7
Sector average		**51.2**	**53.3**	**58.7**	**59.7**	**53.7**	**72.5**	**87.0**	**61.1**

Source: CLSA Emerging Markets

Appendix 15: CG scores by GEM sector – Petrochemicals (%)

Company name	Country	Discipline	Transp.	Indep.	A/C ability	Resp.	Fairness	Social	Wgtd CG
Castrol	India	88.9	30.0	92.9	87.5	50.0	77.8	100.0	74.1
Engro Chemical	Pakistan	77.8	66.7	66.7	77.8	77.8	33.3	55.6	65.6
PTTEP	Thailand	44.4	70.0	78.6	50.0	50.0	94.4	50.0	63.1
BPCL	India	66.7	40.0	71.4	75.0	33.3	77.8	83.3	63.0
Gujarat Gas	India	77.8	40.0	64.3	37.5	50.0	83.3	100.0	62.9
HPCL	India	66.7	10.0	64.3	75.0	50.0	77.8	83.3	59.9
Reliance Industries	India	88.9	50.0	28.6	75.0	66.7	44.4	66.7	59.7
PGas	Malaysia	33.3	60.0	85.7	25.0	50.0	72.2	66.7	55.6
Sasol	South Africa	66.7	60.0	57.1	0.0	66.7	77.8	50.0	54.2
IPCL	India	66.7	30.0	21.4	75.0	33.3	77.8	83.3	54.0
Reliance Petroleum	India	100.0	20.0	28.6	75.0	50.0	22.2	66.7	51.0
IOC	India	66.7	10.0	21.4	75.0	33.3	77.8	83.3	51.0
Formosa Plastics	Taiwan	33.3	60.0	85.7	50.0	33.3	27.8	66.7	50.2
GAIL	India	44.4	20.0	71.4	25.0	50.0	77.8	66.7	50.0
ONGC	India	66.7	10.0	14.3	75.0	33.3	77.8	83.3	49.9
Nan Ya Plastics	Taiwan	44.4	60.0	85.7	50.0	16.7	27.8	66.7	49.4
Shell	Pakistan	44.4	30.0	78.6	37.5	33.3	22.2	100.0	46.9
MOL	Hungary	22.2	60.0	57.1	12.5	66.7	72.2	16.7	45.3
PKN	Poland	44.4	20.0	57.1	12.5	33.3	66.7	33.3	38.4
AYGAZ	Turkey	66.7	50.0	21.4	12.5	33.3	16.7	83.3	38.4
TUPRAS	Turkey	44.4	60.0	21.4	12.5	33.3	16.7	83.3	36.6
PETKIM	Turkey	55.6	60.0	21.4	12.5	33.3	16.7	66.7	36.6
POAS	Turkey	66.7	50.0	0.0	12.5	16.7	22.2	100.0	35.2
Pakistan State Oil	Pakistan	55.6	30.0	14.3	37.5	16.7	22.2	83.3	34.8
ICI Pakistan Ltd	Pakistan	22.2	30.0	28.6	12.5	33.3	22.2	83.3	30.7
Dewan Salman	Pakistan	33.3	33.3	33.3	22.2	22.2	16.7	11.1	25.3
Fauji Fertilizer	Pakistan	22.2	22.2	22.2	22.2	22.2	16.7	22.2	21.4
Lukoil	Russia	22.2	0.0	7.1	12.5	33.3	16.7	16.7	15.4
Sector average		**54.8**	**38.7**	**46.5**	**41.0**	**40.1**	**48.4**	**66.9**	**47.1**

Source: CLSA Emerging Markets

Appendix 16: CG scores by GEM sector – Pharmaceuticals (%)

Company name	Country	Discipline	Transp.	Indep.	A/C ability	Resp.	Fairness	Social	Wgtd CG
Cipla	India	66.7	40.0	71.4	25.0	50.0	88.9	100.0	61.3
Glaxo India	India	55.6	30.0	71.4	50.0	50.0	83.3	100.0	61.0
Dr Reddys Lab	India	55.6	50.0	21.4	37.5	50.0	100.0	100.0	57.2
Hoechst Marrion	India	55.6	20.0	64.3	37.5	50.0	83.3	100.0	56.6
Ranbaxy	India	44.4	50.0	42.9	50.0	33.3	100.0	83.3	56.4
Sun Pharma	India	44.4	50.0	14.3	25.0	50.0	88.9	100.0	50.9
Wockhardt	India	44.4	50.0	14.3	25.0	50.0	83.3	100.0	50.1
Burroughs Well	India	55.6	30.0	64.3	37.5	33.3	33.3	100.0	48.1
Nicholas Piramal	India	33.3	40.0	14.3	25.0	50.0	88.9	100.0	47.7
SKB Pharma	India	55.6	30.0	14.3	50.0	50.0	33.3	100.0	45.0
Pfizer India	India	66.7	20.0	14.3	37.5	33.3	33.3	100.0	40.8
Novartis India	India	55.6	20.0	14.3	37.5	33.3	33.3	100.0	39.1
Tempo Scan	Indonesia	33.3	60.0	14.3	12.5	33.3	66.7	33.3	36.4
Kalbe Farma	Indonesia	11.1	60.0	7.1	12.5	33.3	77.8	16.7	31.9
Sector average		**48.4**	**39.3**	**31.6**	**33.0**	**42.9**	**71.0**	**88.1**	**48.7**

Source: CLSA Emerging Markets

Appendix 17: CG scores by GEM sector – Power (%)

Company name	Country	Discipline	Transp.	Indep.	A/C ability	Resp.	Fairness	Social	Wgtd CG
CLP	Hong Kong	88.9	90.0	92.9	75.0	83.3	50.0	100.0	82.0
Hong Kong Gas	Hong Kong	77.8	80.0	78.6	50.0	83.3	50.0	100.0	73.0
Eletropaulo	Brazil	55.6	80.0	35.7	87.5	83.3	72.2	66.7	68.8
Hongkong Electric	Hong Kong	77.8	70.0	71.4	50.0	66.7	50.0	100.0	67.9
Copel	Brazil	11.1	80.0	85.7	75.0	66.7	61.1	100.0	66.9
Malakoff	Malaysia	55.6	50.0	85.7	37.5	66.7	100.0	50.0	64.3
Larsen & Toubro	India	66.7	30.0	100.0	87.5	16.7	83.3	66.7	64.3
Egco	Thailand	44.4	90.0	28.6	50.0	50.0	100.0	83.3	62.8
Light	Brazil	55.6	80.0	35.7	87.5	83.3	22.2	66.7	61.3
CNOOC	China	66.7	80.0	28.6	50.0	66.7	83.3	50.0	61.3
Endesa	Chile	55.6	90.0	35.7	37.5	66.7	88.9	50.0	61.1
Enersis	Chile	44.4	90.0	35.7	37.5	66.7	88.9	50.0	59.5
Cemig	Brazil	33.3	90.0	28.6	75.0	50.0	22.2	100.0	54.9
BSES	India	44.4	30.0	71.4	62.5	33.3	77.8	66.7	54.6
BHEL	India	55.6	10.0	78.6	62.5	33.3	83.3	50.0	53.5
Siemens	India	44.4	10.0	78.6	62.5	33.3	77.8	50.0	51.0
SIPD	China	33.3	50.0	64.3	12.5	50.0	83.3	66.7	50.7
Akenerji	Turkey	66.7	40.0	64.3	0.0	50.0	72.2	66.7	50.6
Eletrobras	Brazil	22.2	50.0	35.7	62.5	33.3	66.7	100.0	50.6
Datang	China	33.3	60.0	64.3	12.5	50.0	83.3	50.0	50.5
Celesc	Brazil	22.2	60.0	35.7	50.0	33.3	66.7	100.0	50.2
Cummins India	India	33.3	30.0	21.4	87.5	33.3	83.3	66.7	50.0
Manila Electric Co.	Phil	33.3	40.0	71.4	25.0	50.0	72.2	50.0	48.8
Ratch	Thailand	44.4	70.0	21.4	37.5	33.3	83.3	50.0	48.5
Huaneng	China	11.1	60.0	64.3	12.5	50.0	77.8	66.7	48.0
PetroChina	China	66.7	60.0	28.6	50.0	33.3	27.8	50.0	45.0
Sinopec	China	66.7	60.0	28.6	50.0	33.3	27.8	50.0	45.0
YTL Power	Malaysia	22.2	30.0	71.4	12.5	33.3	72.2	50.0	41.3
Banpu	Thailand	22.2	80.0	21.4	37.5	16.7	44.4	66.7	40.0
Tenaga	Malaysia	44.4	50.0	28.6	37.5	33.3	27.8	66.7	39.9
Coco	Thailand	11.1	50.0	21.4	37.5	16.7	33.3	83.3	33.8
Guangdong Power	China	22.2	30.0	7.1	12.5	16.7	61.1	83.3	30.8
Southeast Power	China	11.1	30.0	7.1	12.5	16.7	66.7	83.3	29.9
Hub Power	Pakistan	33.3	20.0	14.3	25.0	0.0	22.2	83.3	25.6
Sector average		**43.5**	**56.5**	**48.3**	**46.0**	**45.1**	**64.2**	**70.1**	**52.5**

Source: CLSA Emerging Markets

Appendix 18: CG scores by GEM sector – Property (%)

Company name	Country	Discipline	Transp.	Indep.	A/C ability	Resp.	Fairness	Social	Wgtd CG
RBH	Malaysia	77.8	70.0	92.9	50.0	66.7	100.0	50.0	73.6
IOI Properties	Malaysia	77.8	100.0	28.6	50.0	66.7	83.3	66.7	67.6
Capitaland	Singapore	33.3	80.0	92.9	87.5	83.3	44.4	33.3	66.6
Hongkong Land	Hong Kong	44.4	80.0	42.9	75.0	100.0	33.3	83.3	64.7
SP Setia	Malaysia	44.4	90.0	21.4	50.0	83.3	88.9	66.7	63.4
City Dev	Singapore	66.7	50.0	78.6	75.0	83.3	33.3	50.0	63.0
IJM	Malaysia	55.6	60.0	85.7	12.5	50.0	100.0	50.0	59.6
Sun Hung Kai Properties	Hong Kong	33.3	70.0	35.7	37.5	83.3	83.3	66.7	58.1
Sino Land	Hong Kong	22.2	70.0	35.7	37.5	83.3	83.3	66.7	56.5
Sime UEP	Malaysia	44.4	50.0	78.6	25.0	66.7	77.8	50.0	56.4
Keppel Land	Singapore	44.4	70.0	71.4	37.5	83.3	33.3	50.0	56.0
Wharf	Hong Kong	22.2	70.0	35.7	37.5	66.7	77.8	83.3	54.8
Henderson Land	Hong Kong	33.3	70.0	35.7	37.5	66.7	77.8	66.7	54.8
Wing Tai	Singapore	44.4	60.0	71.4	37.5	83.3	33.3	50.0	54.5
Cheung Kong	Hong Kong	33.3	60.0	35.7	37.5	66.7	83.3	66.7	54.1
Allgreen	Singapore	55.6	30.0	71.4	37.5	83.3	33.3	50.0	51.7
Marco Polo	Singapore	44.4	30.0	71.4	37.5	83.3	38.9	50.0	50.8
MCL Land	Singapore	44.4	30.0	71.4	37.5	83.3	33.3	50.0	50.0
FCC	Singapore	44.4	30.0	71.4	37.5	66.7	27.8	50.0	46.7
Singland	Singapore	33.3	30.0	71.4	37.5	66.7	33.3	50.0	45.8
LH	Thailand	11.1	60.0	21.4	50.0	66.7	50.0	66.7	45.5
Ayala Land	Phil	55.6	40.0	21.4	25.0	16.7	16.7	83.3	34.6
Filinvest Land	Phil	44.4	30.0	21.4	25.0	16.7	16.7	66.7	29.8
Metro Pacific	Phil	33.3	20.0	21.4	25.0	0.0	16.7	83.3	25.8
Sector average		**43.5**	**56.3**	**53.6**	**41.7**	**67.4**	**54.2**	**60.4**	**53.5**

Source: CLSA Emerging Markets

Appendix 19: CG scores by GEM sector – Technology (%)

Company name	Country	Discipline	Transp.	Indep.	A/C ability	Resp.	Fairness	Social	Wgtd CG
Infosys	India	88.9	90.0	92.9	100.0	83.3	100.0	100.0	93.3
Wipro	India	88.9	70.0	78.6	75.0	66.7	88.9	100.0	80.2
TSMC	Taiwan	100.0	100.0	42.9	87.5	66.7	50.0	100.0	77.1
Hughes Software	India	66.7	50.0	85.7	62.5	66.7	88.9	100.0	73.1
Powerchip	Taiwan	66.7	70.0	92.9	87.5	66.7	33.3	100.0	72.6
Mastek	India	77.8	60.0	78.6	50.0	50.0	94.4	100.0	71.6
Legend	China	55.6	70.0	85.7	62.5	66.7	77.8	83.3	71.1
Natsteel Broadway	Singapore	88.9	60.0	85.7	50.0	66.7	83.3	33.3	68.5
HANA	Thailand	44.4	60.0	78.6	75.0	50.0	100.0	66.7	67.9
Datacraft	Singapore	44.4	70.0	85.7	62.5	66.7	88.9	50.0	67.7
Dimension Data	South Africa	66.7	60.0	21.4	62.5	100.0	94.4	66.7	67.4
Sunplus	Taiwan	55.6	70.0	78.6	50.0	33.3	94.4	100.0	67.3
STATS	Singapore	33.3	80.0	85.7	62.5	66.7	83.3	50.0	66.7
Creative	Singapore	44.4	70.0	85.7	50.0	66.7	83.3	66.7	66.7
D-Link	Taiwan	44.4	50.0	78.6	87.5	66.7	72.2	66.7	66.6
HCL Technologies	India	55.6	50.0	78.6	75.0	66.7	38.9	100.0	64.7
Chartered	Singapore	33.3	80.0	92.9	62.5	50.0	77.8	50.0	64.5
NIIT	India	88.9	40.0	78.6	50.0	66.7	38.9	100.0	64.5
Venture	Singapore	55.6	70.0	92.9	25.0	66.7	83.3	50.0	64.0
Macronix	Taiwan	66.7	90.0	85.7	50.0	33.3	33.3	100.0	63.9
ADT	Taiwan	33.3	70.0	78.6	50.0	33.3	88.9	100.0	63.1
Elan	Taiwan	44.4	70.0	78.6	50.0	16.7	94.4	100.0	63.1
Advantech	Taiwan	55.6	50.0	85.7	62.5	66.7	77.8	33.3	63.1
VIA	Taiwan	66.7	30.0	85.7	12.5	50.0	100.0	100.0	61.7
Unisem	Malaysia	44.4	70.0	85.7	37.5	50.0	88.9	50.0	61.5
Omni Industries	Singapore	33.3	70.0	85.7	25.0	66.7	94.4	50.0	61.3
Winbond	Taiwan	55.6	90.0	85.7	75.0	16.7	38.9	66.7	60.9
Quanta	Taiwan	55.6	30.0	85.7	25.0	50.0	88.9	83.3	58.6
Realtek	Taiwan	44.4	50.0	78.6	25.0	66.7	77.8	66.7	58.0
Picvue	Taiwan	55.6	70.0	92.9	50.0	16.7	44.4	83.3	57.8
Compeq	Taiwan	66.7	20.0	85.7	12.5	50.0	88.9	83.3	56.9
Asustek	Taiwan	55.6	20.0	85.7	12.5	50.0	100.0	83.3	56.9
ZyXEL	Taiwan	44.4	40.0	78.6	25.0	66.7	77.8	66.7	56.5
ASE	Taiwan	55.6	90.0	85.7	50.0	16.7	33.3	66.7	56.4
Comparex	South Africa	55.6	60.0	14.3	62.5	50.0	88.9	66.7	56.4
SPIL	Taiwan	55.6	90.0	85.7	37.5	16.7	33.3	66.7	54.5
BFL Software	India	66.7	50.0	35.7	75.0	33.3	33.3	100.0	54.1
Ionics Inc.	Phil	55.6	60.0	64.3	25.0	33.3	77.8	66.7	54.1
MTI	Taiwan	22.2	50.0	78.6	25.0	66.7	72.2	66.7	53.9
Satyam	India	55.6	50.0	35.7	75.0	33.3	44.4	83.3	52.4
CPT	Taiwan	44.4	60.0	85.7	50.0	16.7	33.3	83.3	51.9
Wintek	Taiwan	22.2	70.0	78.6	50.0	16.7	38.9	100.0	51.5
Ambit	Taiwan	33.3	40.0	71.4	25.0	66.7	77.8	33.3	50.5
Yageo	Taiwan	33.3	40.0	85.7	12.5	50.0	44.4	100.0	49.9
DELTA	Thailand	44.4	40.0	21.4	62.5	50.0	88.9	33.3	49.4
Tata Infotech	India	33.3	30.0	35.7	62.5	16.7	83.3	100.0	49.2
UMC	Taiwan	55.6	70.0	28.6	62.5	16.7	38.9	83.3	49.2
Compal	Taiwan	44.4	20.0	92.9	12.5	50.0	50.0	83.3	48.8
Samsung Electronics	Korea	33.3	60.0	35.7	37.5	50.0	44.4	83.3	47.5

Continued next page

Appendix 19: CG scores by GEM sector – Technology (%) (continued)

Company name	Country	Discipline	Transp.	Indep.	A/C ability	Resp.	Fairness	Social	Wgtd CG
MPI	Malaysia	44.4	60.0	71.4	37.5	16.7	33.3	66.7	46.2
Delta	Taiwan	55.6	30.0	78.6	25.0	66.7	22.2	33.3	45.0
Datatec	South Africa	66.7	40.0	14.3	62.5	33.3	38.9	66.7	45.0
Samsung SDI	Korea	33.3	60.0	35.7	37.5	33.3	44.4	83.3	45.0
Hon Hai	Taiwan	66.7	20.0	85.7	25.0	50.0	27.8	33.3	44.6
ACM	Taiwan	55.6	30.0	85.7	25.0	50.0	22.2	33.3	43.6
Procomp	Taiwan	44.4	20.0	78.6	25.0	66.7	33.3	33.3	43.5
Acer	Taiwan	44.4	30.0	85.7	12.5	33.3	27.8	83.3	43.4
S S I Ltd	India	55.6	30.0	35.7	62.5	16.7	33.3	83.3	43.4
LG Electronics	Korea	33.3	50.0	28.6	37.5	33.3	33.3	83.3	40.7
Aptech	India	55.6	30.0	28.6	50.0	16.7	33.3	83.3	40.5
Silverline	India	33.3	40.0	28.6	50.0	33.3	27.8	83.3	40.3
HFCL	India	22.2	30.0	14.3	50.0	16.7	72.2	83.3	39.1
SEMCO	Korea	33.3	50.0	35.7	25.0	33.3	33.3	66.7	38.3
Hyundai Electronics	Korea	33.3	50.0	28.6	25.0	33.3	27.8	83.3	38.0
CCET	Thailand	22.2	40.0	21.4	62.5	33.3	33.3	50.0	36.9
Sector average		**51.3**	**54.3**	**67.3**	**47.5**	**46.4**	**61.5**	**74.1**	**56.6**

Source: CLSA Emerging Markets

Appendix 20: CG scores by GEM sector – Telcos (%)

Company name	Country	Discipline	Transp.	Indep.	A/C ability	Resp.	Fairness	Social	Wgtd CG
AIS	Thailand	55.6	70.0	92.9	100.0	66.7	88.9	66.7	77.8
Globo Cabo	Brazil	88.9	100.0	71.4	50.0	66.7	77.8	83.3	76.5
Venfin	South Africa	55.6	50.0	85.7	62.5	83.3	83.3	83.3	71.4
M-Cell	South Africa	66.7	50.0	85.7	62.5	66.7	77.8	83.3	69.7
SUNDAY	Hong Kong	44.4	80.0	85.7	75.0	66.7	77.8	50.0	69.4
Total Access	Thailand	33.3	40.0	85.7	100.0	66.7	88.9	66.7	68.9
Tele Nordeste	Brazil	77.8	100.0	64.3	50.0	66.7	33.3	100.0	68.8
Telemig Cel	Brazil	77.8	100.0	64.3	50.0	66.7	38.9	83.3	68.0
PLDT	Phil	55.6	70.0	78.6	37.5	50.0	94.4	100.0	67.9
Tele Centro Oeste	Brazil	66.7	70.0	64.3	50.0	66.7	77.8	83.3	67.6
Tele Norte Cel	Brazil	77.8	100.0	64.3	50.0	66.7	33.3	83.3	67.1
Iusacell	Mexico	77.8	100.0	64.3	50.0	66.7	33.3	83.3	67.1
Telecom Argentina	Argentina	66.7	70.0	78.6	62.5	50.0	72.2	66.7	66.7
Tele Cel Sul	Brazil	66.7	100.0	64.3	50.0	66.7	27.8	100.0	66.3
Telesp Celular	Brazil	66.7	90.0	64.3	50.0	66.7	33.3	100.0	65.6
I-Cable	Hong Kong	44.4	80.0	71.4	37.5	83.3	83.3	50.0	65.0
Tele Sudeste	Brazil	66.7	80.0	64.3	50.0	50.0	66.7	83.3	65.0
Singtel	Singapore	66.7	60.0	92.9	50.0	83.3	44.4	50.0	64.6
SmarTone	Hong Kong	44.4	50.0	85.7	50.0	83.3	83.3	50.0	64.5
Johnnic	South Africa	66.7	50.0	78.6	62.5	50.0	77.8	66.7	64.5
Johncom	South Africa	66.7	50.0	78.6	62.5	50.0	77.8	66.7	64.5
America Movil	Mexico	66.7	90.0	64.3	50.0	66.7	33.3	83.3	64.0
Telmex	Mexico	55.6	60.0	71.4	62.5	50.0	72.2	66.7	62.4
Tele Leste Cel	Brazil	66.7	80.0	64.3	50.0	66.7	27.8	83.3	61.6
Entel	Chile	22.2	60.0	71.4	62.5	83.3	83.3	33.3	60.8
Matav	Hungary	88.9	70.0	21.4	100.0	66.7	22.2	50.0	60.4
Digi.com	Malaysia	55.6	50.0	78.6	50.0	50.0	83.3	50.0	60.1
Loop	Taiwan	33.3	40.0	85.7	62.5	66.7	77.8	50.0	59.9
Taiwan Cellular Corp.	Taiwan	66.7	30.0	85.7	87.5	33.3	38.9	66.7	58.0
Globe	Phil	33.3	70.0	78.6	37.5	50.0	33.3	100.0	55.4
Embratel	Brazil	66.7	60.0	85.7	62.5	33.3	16.7	66.7	55.4
VSNL	India	33.3	10.0	64.3	37.5	66.7	88.9	83.3	53.4
Far Eastern Textile	Taiwan	55.6	60.0	85.7	50.0	16.7	33.3	66.7	51.9
Czech Telecom	Czech	77.8	60.0	78.6	87.5	33.3	5.6	0.0	51.4
MTNL	India	33.3	10.0	64.3	37.5	66.7	83.3	66.7	50.9
Indosat	Indonesia	44.4	80.0	28.6	25.0	66.7	72.2	33.3	50.9
SK Telecom	Korea	44.4	70.0	14.3	62.5	50.0	33.3	83.3	49.5
China Mobile	China	66.7	70.0	14.3	0.0	66.7	83.3	33.3	48.5
Telekom Malaysia	Malaysia	22.2	80.0	78.6	25.0	33.3	27.8	83.3	48.4
Turkcell	Turkey	88.9	30.0	28.6	37.5	66.7	27.8	50.0	46.9
TA	Thailand	22.2	60.0	42.9	87.5	16.7	38.9	66.7	46.9
CTC	Chile	33.3	80.0	35.7	62.5	50.0	27.8	33.3	46.7
Telemar	Brazil	22.2	60.0	71.4	50.0	33.3	27.8	66.7	46.4
Korea Telecom	Korea	55.6	60.0	14.3	62.5	33.3	22.2	83.3	45.5
Brasil Telecom	Brazil	33.3	90.0	64.3	37.5	16.7	16.7	66.7	45.4
China Mobile	Hong Kong	66.7	60.0	14.3	0.0	66.7	83.3	16.7	45.3
Unicom	China	55.6	60.0	14.3	12.5	50.0	83.3	33.3	44.7
KT Freetel	Korea	44.4	50.0	14.3	62.5	50.0	16.7	83.3	44.0
LG Telecom	Korea	44.4	50.0	14.3	62.5	50.0	11.1	83.3	43.2

Continued next page

Appendix 20: CG scores by GEM sector – Telcos (%) (continued)

Company name	Country	Discipline	Transp.	Indep.	A/C ability	Resp.	Fairness	Social	Wgtd CG
Telkom	Indonesia	33.3	60.0	28.6	25.0	33.3	72.2	50.0	42.9
Dacom	Korea	33.3	50.0	14.3	62.5	50.0	16.7	83.3	42.4
China Unciom	Hong Kong	55.6	50.0	14.3	12.5	50.0	83.3	16.7	41.5
Hanaro Telecom	Korea	33.3	50.0	14.3	62.5	33.3	22.2	83.3	40.7
Piltel	Phil	33.3	50.0	64.3	12.5	33.3	11.1	100.0	40.7
PCCW	Hong Kong	22.2	40.0	64.3	0.0	50.0	72.2	33.3	40.6
Hurriyet	Turkey	55.6	20.0	28.6	25.0	16.7	72.2	50.0	37.7
TPSA	Poland	11.1	20.0	78.6	100.0	16.7	0.0	0.0	34.0
TRI	Malaysia	11.1	40.0	21.4	50.0	16.7	22.2	66.7	30.9
Pakistan Telecom	Pakistan	33.3	10.0	14.3	12.5	16.7	16.7	33.3	18.9
Sector average		**51.8**	**61.0**	**57.3**	**50.8**	**52.5**	**51.4**	**64.4**	**55.2**

Source: CLSA Emerging Markets

Appendix 21: CG scores by GEM sector – Transport (%)

Company name	Country	Discipline	Transp.	Indep.	A/C ability	Resp.	Fairness	Social	Wgtd CG
Neptune Orient Lines	Singapore	100.0	70.0	100.0	62.5	83.3	88.9	83.3	84.0
SembCorp Logistics	Singapore	33.3	90.0	92.9	62.5	66.7	94.4	50.0	71.0
SMRT	Singapore	66.7	70.0	85.7	37.5	83.3	88.9	50.0	69.8
MISC	Malaysia	66.7	70.0	78.6	37.5	66.7	88.9	66.7	67.9
LanChile	Chile	44.4	90.0	71.4	37.5	83.3	88.9	50.0	67.3
SBS	Singapore	77.8	50.0	71.4	37.5	83.3	88.9	50.0	66.3
Delgro	Singapore	77.8	50.0	71.4	37.5	66.7	94.4	50.0	64.7
Cosco Pacific	China	77.8	60.0	28.6	75.0	83.3	38.9	66.7	61.2
Sector average		**68.1**	**68.8**	**75.0**	**48.4**	**77.1**	**84.0**	**58.3**	**69.0**

Source: CLSA Emerging Markets

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